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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

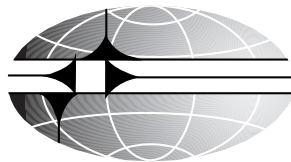
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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in **Shenzhen Expressway Company Limited**, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**深圳高速公路股份有限公司**

**SHENZHEN EXPRESSWAY COMPANY LIMITED**

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

**(Stock Code: 00548)**

**DISCLOSEABLE AND CONNECTED TRANSACTION  
ACQUISITION OF COASTAL COMPANY  
APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR  
AND  
REVISED NOTICE OF THE FIRST EXTRAORDINARY  
GENERAL MEETING 2018**



**TC CAPITAL**

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

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A letter from the Independent Board Committee is set out on page 16 of this circular. A letter from TC Capital International Limited, the Independent Financial Adviser, is set out on pages 17 to 29 of this circular.

The first extraordinary general meeting 2018 (“EGM”) of Shenzhen Expressway Company Limited (“**Company**”) are to be held at the conference room of the Company at Podium Levels 2-4, Jiangsu Building, Yitian Road, Futian District, Shenzhen, the PRC at 2 p.m. on Thursday, 8 February 2018. The revised notice of the EGM (the “**Revised EGM Notice**”) is set out on pages EGM-1 to EGM-3 of this circular. The revised proxy form (the “**Revised Proxy Form**”) is enclosed. The reply slip for the EGM has been published and despatched to the shareholders of the Company on 22 December 2017.

Whether or not you intend to attend the EGM, you are requested to complete the Revised Proxy Form in accordance with the instructions printed thereon and return the same to the registrar of H shares of the Company, Hong Kong Registrars Limited, at Floor 17M, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (for the holders of H shares) or to the Company at Podium Levels 2-4, Jiangsu Building, Yitian Road, Futian District, Shenzhen, the People’s Republic of China (for the holders of A shares) as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM. Completion and return of the Revised Proxy Form will not preclude you from attending and voting in person at the relevant meetings or any adjourned meeting(s) should you so wish.

23 January 2018

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## DEFINITIONS

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

“Acquisition”	the transfer of the 100% equity interest in Coastal Company from SIHCL to the Company pursuant to the Acquisition Agreement
“Acquisition Agreement”	the equity acquisition agreement entered into among the Company, SIHCL and Coastal Company on 11 December 2017 in relation to the Acquisition
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Coastal Company”	深圳市廣深沿江高速公路投資有限公司 (Shenzhen Guangshen Coastal Expressway Investment Company Limited), a limited liability company incorporated in the PRC
“Coastal Phase I”	Phase I of Coastal Project, on the main line of Coastal Project, the toll mileage is approximately 30.9 km and was opened to traffic on 28 December 2013
“Coastal Phase II”	Phase II of Coastal Project, which includes the connection line on the Shenzhen side of Shenzhen-Zhongshan Channel, Airport Interchange, International Convention and Exhibition Center Interchange, etc., with a total length of approximately 5.7 km
“Coastal Project”	the Shenzhen section of Guangshen Coastal Expressway (Guangzhou to Shenzhen), which comprises of Coastal Phase I and Coastal Phase II
“Company”	Shenzhen Expressway Company Limited, a joint stock limited company incorporated in the PRC with limited liability, the H shares of which are listed on the Stock Exchange and the A shares of which are listed on the Shanghai Stock Exchange
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the first extraordinary general meeting 2018 of the Company to be held at the conference room of the Company at Podium Levels 2-4, Jiangsu Building, Yitian Road, Futian District, Shenzhen, the PRC, on Thursday, 8 February 2018 at 2 p.m., or any adjournment thereof

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## DEFINITIONS

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“Entrusted Construction Agreement”	the entrusted construction management agreement in relation to the Shenzhen section of Guangshen Coastal Expressway entered into between the Company and Coastal Company on 9 September 2011
“Entrusted Operation Agreement”	the entrusted operation management agreement in relation to Phase I of the Shenzhen section of Guangshen Coastal Expressway entered into between the Company and Coastal Company on 30 December 2016
“Entrusted Operation and Management Agreement”	the entrusted operation and management agreement and other related agreements in relation to the entrustment management of Coastal Company entered into between the Company and SIHCL on 6 November 2009
“Ernst & Young”	Ernst & Young Hua Ming LLP, Certified Public Accountants, the PRC
“GPCPDI”	Guangdong Province Communications Planning & Design Institute Co., Ltd., an independent traffic consultant in the PRC
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company comprising Mr. Hu Chun Yuan, Mr. Cai Shu Guang, Mr. Wan Siu Wah Wilson and Ms. Chen Xiao Lu, being all the independent non-executive Directors, established for the purpose of advising the Independent Shareholders in respect of the Acquisition Agreement and the transaction contemplated thereunder
“Independent Financial Adviser” or “TC Capital”	TC Capital International Limited, a licensed corporation permitted to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“Independent Shareholder(s)”	Shareholders who are independent of SIHCL and its associates (including SZ International and its associates) and are not required to abstain from voting on the relevant resolution at EGM of the Company
“Latest Practicable Date”	19 January 2018, being the latest practicable date prior to the printing of this circular for ascertaining certain information herein

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## DEFINITIONS

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“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Pengxin Appraisal”	深圳市鵬信資產評估土地房地產估價有限公司, (Shenzhen Pengxin Appraisal Limited), an independent institution established in PRC with the qualifications for assets valuation
“PRC”	the People’s Republic of China, and for the purposes of this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of the shares of the Company
“SIHCL”	深圳市投資控股有限公司 (Shenzhen Investment Holdings Company Limited), a limited liability company incorporated in the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Entrusted Construction Agreement”	the supplemental entrusted construction management agreement in relation to the Shenzhen section of Guangshen Coastal Expressway entered into between the Company and Coastal Company on 1 June 2016
“SZ International”	Shenzhen International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange

*Notes:*

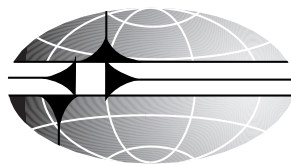
In this circular, certain English names of Chinese entities are translation of their Chinese names, and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

*In this circular, conversion of RMB into HK\$ is based on the exchange rate of HK\$1.00 to RMB0.86. The exchange rates have been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts were or may have been exchanged at this or any other rates or at all.*

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LETTER FROM THE BOARD

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深圳高速公路股份有限公司  
**SHENZHEN EXPRESSWAY COMPANY LIMITED**

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

**(Stock Code: 00548)**

*Executive Directors:*

Mr. HU Wei (*Chairman*)  
Mr. WU Ya De (*President*)  
Mr. LIAO Xiang Wen  
Ms. GONG Tao Tao

*Legal Address:*

Fumin Toll Station,  
Fucheng Street,  
Longhua District,  
Shenzhen, PRC

*Non-executive Directors:*

Mr. LIU Ji  
Ms. CHEN Yan  
Mr. FAN Zhi Yong  
Mr. CHEN Yuan Jun

*Place of Business in PRC:*

Podium Levels 2-4,  
Jiangsu Building,  
Yitian Road,  
Futian District,  
Shenzhen, PRC

*Independent Non-executive Directors:*

Mr. HU Chun Yuan  
Mr. CAI Shu Guang  
Mr. WAN Siu Wah Wilson  
Ms. CHEN Xiao Lu

*Principal Place of Business in Hong Kong:*

Room 1603, 16/F, China Building,  
29 Queen's Road Central,  
Central, Hong Kong

23 January 2018

*To the Shareholders*

Dear Sirs or Madams,

**DISCLOSEABLE AND CONNECTED TRANSACTION  
ACQUISITION OF COASTAL COMPANY  
APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR  
AND  
REVISED NOTICE OF THE FIRST EXTRAORDINARY  
GENERAL MEETING 2018**

Reference is made to the joint announcement of SZ International and the Company dated 11 December 2017 in relation to the Acquisition Agreement entered into among the Company, SIHCL and Coastal Company on 11 December 2017; and the announcements dated 5 January 2018 and 18 January 2018 in relation to the resignation of Mr. Hu Chun Yuan as an independent non-executive Director and the nomination of candidate of the independent non-executive Director.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, (i) information on the Acquisition Agreement; (ii) information on the candidate of the independent non-executive Director; and (iii) other information required under the Listing Rules.

### THE ACQUISITION AGREEMENT

#### (I) Introduction

On 11 December 2017, the Company (as purchaser), SIHCL (as vendor) and Coastal Company entered into the Acquisition Agreement, pursuant to which the Company agreed to acquire 100% equity interest in Coastal Company from SIHCL at a consideration of RMB1.472 billion (approximately HK\$1.712 billion).

#### (II) The Acquisition Agreement

The principal terms of the Acquisition Agreement are as follows:

**Date:** 11 December 2017

**Parties:**

- (1) the Company (as purchaser);
- (2) SIHCL (as vendor); and
- (3) Coastal Company.

**Subject of the Acquisition:**

Pursuant to the Acquisition Agreement, the Company agreed to acquire and SIHCL agreed to sell 100% equity interest in Coastal Company.

**Consideration and payment arrangements:**

The consideration for the acquisition of 100% equity interest in Coastal Company is RMB1.472 billion (approximately HK\$1.712 billion), which shall be paid by the Company to SIHCL in the following manners:

- (i) within 10 working days from the date of the Acquisition Agreement, the Company shall pay 50% of the consideration, being RMB736 million (approximately HK\$856 million) to SIHCL, and the Company and SIHCL shall enter into a joint account agreement with a commercial bank agreed by both parties and open a joint account in the name of SIHCL under the common control of the parties for depositing the remaining consideration;
- (ii) within 15 days upon the effective conditions of the Acquisition Agreement have been fully satisfied or exempted/waived (and in any event not later than 31 December 2017), such effective conditions are namely, SIHCL having completed the statutory procedures for the transfer of state-owned assets in accordance with the law; the shareholder of Coastal Company having considered and approved the Acquisition; and having obtained letter(s) of consent from the financial institution creditors of Coastal Company, the

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## LETTER FROM THE BOARD

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Company, SIHCL and Coastal Company shall promptly handle the business registration in relation to the Acquisition. As at the Latest Practicable Date, the effective conditions of the Acquisition Agreement have been fully satisfied;

- (iii) the Company shall deposit the remaining 50% consideration of RMB736 million (approximately HK\$856 million) into the joint account as set out in (i) above within 10 working days after completion of the matters below (and in any event not later than 31 December 2017):
  - (a) the effective conditions to the Acquisition Agreement as set out in (ii) above have been fully satisfied or waived; and
  - (b) the Market and Quality Supervision Commission of Shenzhen Municipality having approved the business registration of the acquisition of equity interest in Coastal Company by the Company and issued a new business license or notice of change to Coastal Company.
- (iv) within 5 working days from the Acquisition having been approved by its shareholders in the general meeting, the Company shall release its control on the joint account and the fund in the joint account shall be owned by SIHCL.

As at the Latest Practicable Date, the consideration has been paid by the Company and has been funded by the Company's internal resources and borrowing, the business registration in relation to the Acquisition has been approved.

***Basis of the Consideration:***

The consideration was determined after arm's length negotiations between the Company and SIHCL on normal commercial terms.

The principal business of Coastal Company is the construction, operation and management of Coastal Project. Based on the investment and operation experiences and the professional abilities towards the highway projects in the past, the Company comprehensively considered factors including the traffic flow, operation, policy environment and the maturity of the project for assessing the estimated value of Coastal Company; and took into account the valuation report prepared by Pengxin Appraisal as the major factors in negotiating the consideration of the Acquisition. The income approach was adopted in the valuation of the market value of the entire shareholder's interests in Coastal Company as at 31 October 2017 (constitutes a profit forecast under Rule 14.61 of the Listing Rules) by Pengxin Appraisal. Further details of the assumptions used for the profit forecast are set out under the section headed "Valuation" below.

***Other terms:***

- (i) The investment and financing plan of Coastal Phase II was determined by the relevant Shenzhen governmental authorities, upon completion of the Acquisition, Coastal Company shall continue to follow the government approval to complete the investment and financing plan.



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## LETTER FROM THE BOARD

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- (ii) During the previous years, the Company has been entrusted by SIHCL to manage Coastal Company, and also entrusted by Coastal Company to manage the construction of Coastal Project and the operation of Coastal Phase I. For details, please refer to the joint announcements of SZ International and the Company dated 6 November 2009, 9 September 2011, 1 June 2016, 16 June 2016 and 30 December 2016, the circular of the Company dated 4 October 2011, and the announcement of the Company dated 19 August 2014. Among such entrustment projects, the construction of Coastal Phase I was completed, and the settlement and payment of the relevant construction costs are now in progress. The construction management of Coastal Phase II and the operation management of Coastal Phase I are still undergoing. Pursuant to the Acquisition Agreement, the follow-up arrangements on the entrusted management of Coastal Company and Coastal Project are as follows: except for the settlement and payment of the relevant construction costs, the Entrusted Construction Agreement and the Supplemental Entrusted Construction Agreement in relation to Coastal Project shall be suspended, and the Company shall cease to charge for the construction management fees of Coastal Phase II. As for the Entrusted Operation Agreement in relation to Coastal Phase I, it shall also be suspended save for Coastal Company shall pay the operation management fee to the Company for the period up to the base date (31 October 2017). The Entrusted Operation and Management Agreement shall be suspended after the change of shareholding in Coastal Company.

If the Acquisition is not approved by the Company's shareholders in the general meeting within 6 months after the date of the Acquisition Agreement, the abovementioned agreements shall resume. If the Acquisition is approved by the Company's shareholders in the general meeting within 6 months after the date of the Acquisition Agreement, the abovementioned agreements will be terminated except for the settlement and payment of the relevant construction costs under the Entrusted Construction Agreement.

***Termination of the agreement:***

If any party commits a significant breach under the Acquisition Agreement and render the purpose of the Acquisition Agreement cannot be achieved or severely unreasonable to achieve from commercial aspect, and the non-defaulting party may issue a written request to terminate the Acquisition Agreement. Further, if the transaction contemplated under the Acquisition Agreement is not approved by the Company's shareholders in the general meeting within 6 months from the date of the Acquisition Agreement, the Acquisition Agreement will be terminated as well.

If the effective conditions are not fully satisfied or waived within 6 months from the date of the Acquisition Agreement, or the Acquisition Agreement is terminated after become effective, SIHCL shall refund the consideration it has received and return the fund in the joint account to the Company and pay an interest to the Company in accordance with the bank deposit interest rate for the same period within 10 working days after the expiration of the six-month period from the date of the Acquisition Agreement. Within 10 days from the date on which SIHCL has returned the full amount of consideration it has received and the fund in the joint account (inclusive of interest), the Company shall return to SIHCL the 100% equity interest in Coastal Company. Should the return of equity interest delayed by reasons not attributable to the Company such as delay in administrative approval or change of business procedures, the aforesaid period shall be postponed accordingly.

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## LETTER FROM THE BOARD

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### ***Completion:***

Upon completion of the Acquisition, Coastal Company will become a wholly-owned subsidiary of the Company, and its financial statements will be included into the consolidated financial statements of the Company.

### **(III) Valuation**

The Company has appointed Pengxin Appraisal to carry out the valuation of the market value of the entire shareholder's interests in Coastal Company as at 31 October 2017. The base date of the valuation is 31 October 2017. The 100% equity interest in Coastal Company is valued by adopting the income approach. As the valuation has adopted income approach which involves the use of discounted cash flow methodology and constitutes a profit forecast under Rule 14.61 of the Listing Rules, this circular shall comply with the requirements under Rules 14.60A and 14.62 of the Listing Rules in relation to profit forecast.

Pursuant to Rule 14.62 of the Listing Rules, the key assumptions of this valuation mainly include:

- (i) there will be no material changes in future economic, market or social environment (such as national macro-economic policies, market supply and demand conditions, fiscal and taxation policies, domestic and foreign trade policies, environmental protection policies, financial and currency policies, etc.);
- (ii) the enterprise under valuation will continue to operate after the valuation base date;
- (iii) there will be no material changes in the taxation and tax rate policies currently applicable to the enterprise under valuation;
- (iv) there will be no material adverse effect on the enterprise under valuation arising from any force majeure after the valuation base date;
- (v) all assets and liabilities of the enterprise under valuation have been presented and reported or a special explanation in respect thereof has been made to the valuer, and there does not exist any other liabilities/assets, contingent liabilities/assets, or other related rights/contingent rights and obligations/contingent obligations, etc.; and
- (vi) the accounting policy adopted by the enterprise under valuation is same as the Company in material aspects.

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## LETTER FROM THE BOARD

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The valuation is based on operating results over previous years of the enterprise under valuation. Estimates on future operation and revenue of Coastal Company are conducted through analysis over revenue, costs, financial structures, business development trends and growth movements. The expected operating revenue and corporate free cash flow of Coastal Company in major years are set out as below:

*Unit: RMB ten thousand*

<b>Duration (Year)</b>	<b>Operating Revenue</b>	<b>Corporate Free Cash Flow</b>
November to December 2017	6,857.60	5,260.34
2018	44,195.75	4,082.03
2019	49,455.09	762.46
2020	64,570.39	24,545.01
2025	117,627.15	74,435.06
2030	123,680.83	93,385.02
2038 (up to 27 December)	140,580.63	95,278.28

Based on the above assumptions, the market value of the entire shareholder's interests in Coastal Company as at the valuation base date of 31 October 2017 was RMB1.472 billion (approximately HK\$1.712 billion).

The Board has reviewed the principal assumptions adopted in the valuation, and is of the view that the valuation has been made after due and careful enquiry. The calculation of discounted future estimated cash flows adopted by Pengxin Appraisal on which the valuation is based has been reviewed by Ernst & Young, the auditors of the Company. The letter from the Board and the letter from Ernst & Young are included in Appendix III to this circular.

#### **(IV) Information on Coastal Company**

Coastal Company is a limited liability company established in the PRC and its principal business is the construction, operation and management of Coastal Project. Guangshen Coastal Expressway (Provincial Line S3) is an important channel connecting Guangzhou and Shenzhen, and Guangdong and Hong Kong. It has a total length of approximately 90 km connecting Huangpu District in Guangzhou and Nanshan District in Shenzhen. Coastal Project is the Shenzhen section of Guangshen Coastal Expressway, extending from Dongbao River, the boundary between Dongguan and Shenzhen, to Nanshan District, Shenzhen and connecting with Shenzhen Western Corridor in the south. Coastal Project is a dual eight-lane expressway with the total mileage of approximately 37 km. It is comprised of two phases. Coastal Phase I is on the main line of Guangshen Coastal Expressway. It has a toll mileage of approximately 30.9 km and was opened to traffic on 28 December 2013 with a toll collection period of 25 years. Coastal Phase II includes the connection line on the Shenzhen side of Shenzhen-Zhongshan Channel, Airport Interchange, International Convention and Exhibition Center Interchange, etc., with a total length of approximately 5.7 km. The construction of Coastal Phase II commenced in December 2015 and is scheduled to be opened to traffic by end of 2019.

According to the Coastal Project investment and financing plan approved by the Shenzhen government, the estimated total cost of Coastal Project is approximately RMB16.7 billion. The government shall contribute RMB10.3 billion and Coastal Company shall contribute RMB6.4 billion, which shall be financed by bank loan (of which Coastal Phase I and Coastal Phase II amounted to RMB5.4 billion and RMB1 billion respectively) after pledging its toll-collection right to such bank. As at the Latest Practicable Date, the government has contributed approximately RMB7.1 billion. The Coastal Company has pledged the

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## LETTER FROM THE BOARD

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toll-collection right of Coastal Project to a syndicate led by China Development Bank and has applied for a syndicated loan facility totaling RMB5.4 billion, of which a cumulated amount of RMB4.7 billion was utilized.

For the year ended 31 December 2016 and the ten months ended 31 October 2017, the average daily traffic flow of Coastal Phase I was approximately 73,600 vehicles and 77,200 vehicles, and the average daily toll revenue was approximately RMB1,065,800 and RMB1,113,800, respectively.

To ensure the consistency of accounting information, the Company has engaged Ernst & Young to audit and make retrospective adjustments to the financial statements of Coastal Company for the year ended 31 December 2016 and the ten months ended 31 October 2017 based on the accounting policy adopted by the Company. The table below sets out the financial information (after retrospective adjustment) of Coastal Company for the two years ended 31 December 2016 and the ten months ended 31 October 2017:

*Unit: RMB'000*

	<b>For the year ended 31 December 2015 (unaudited)</b>	<b>For the year ended 31 December 2016 (audited)</b>	<b>For the ten months ended 31 October 2017 (audited)</b>
Net profit/(loss)			
(before tax)	(145,944.08)	(108,250.41)	(57,345.53)
Net profit/(loss)			
(after tax)	(145,944.08)	(108,250.41)	(57,345.53)
	<b>As at</b>	<b>As at</b>	<b>As at</b>
	<b>31 December 2015 (unaudited)</b>	<b>31 December 2016 (audited)</b>	<b>31 October 2017 (audited)</b>
Net asset	1,637,595.94	1,529,345.53	1,472,000

### (V) Estimated Financial Impact of the Acquisition

As stated above, the estimated total cost of the Coastal Project is approximately RMB16.7 billion, of which the government shall contribute RMB10.3 billion and Coastal Company shall contribute RMB6.4 billion, which shall be financed by bank loan after pledging its toll-collection right to the bank. If the Coastal Project is completed in accordance with the budget plan, considering the consideration of the Acquisition, the existing liabilities of Coastal Company and the bank loans to be obtained by Coastal Company for construction of Coastal Phase II, the total investment amount made by the Group in the Coastal Project is estimated to be approximately RMB7.5-7.6 billion.

Assuming Coastal Company will be included in the consolidated financial statements of the Group from 1 March 2018 onwards, the Acquisition will increase the total assets and total liabilities of the Group by approximately RMB7.8 billion, respectively, and increase the revenue for 2018 by approximately RMB442 million and reduce the net profit attributable to shareholders of the Company for 2018 by approximately RMB60 million (or approximately RMB100 million if taking into account the capital cost of equity investments). It is expected that the Coastal Project will start to bring positive contribution to the operating performance the Company from 2020. The above information is based on the preliminary estimation, and the actual financial impact is subject to confirmation and audit by the auditors of the Company.

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## LETTER FROM THE BOARD

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### **(VI) Reasons for and Benefits of Entering into the Acquisition Agreement**

The investment, construction, operation and management of toll highways and roads are in the ordinary and usual course of business of the Company. The directors of the Company consider that Guangshen Coastal Expressway is an important core passage going through the north-south of the Pearl River Delta region, it is also an important corridor connecting Guangzhou, Shenzhen and Hong Kong within the Guangdong-Hong Kong-Macau Greater Bay Area. It enjoys an excellent geographical location and an economically viable neighbourhood region.

The Coastal Company has been incurring losses in the past few years since Coastal Phase I is in the preliminary stage of operation and Coastal Phase II is still under construction and has not commenced operation. Based on the Company's experience in expressway operation and management, an expressway usually experiences losses in its early stage of operation and may turn from loss to profit after several years of operation. As shown in the section headed "Information on Coastal Company" in this circular, the loss incurred by the Coastal Company is diminishing gradually over time, which is in line with the business development pattern of an expressway. It is expected that the Coastal Company will continue to reduce its loss and start to realise gain in near future. Further, as the surrounding road network of the Coastal Project is not comprehensive enough currently, the traffic diversion function of the Coastal Project has not been fully played and thus the operating performance of the Coastal Project is still at a relatively lower level in short term.

With the steady development of the regional economy along the Coastal Project, the expected commencement of operation of Coastal Phase II by the end of 2019, the operation of the Coastal Project having entered into a more mature stage, and the constant improvement of its surrounding road networks, it is expected the operating performance of Coastal Project will have a rapid growth. In the long run, the acquisition of 100% interest in Coastal Company will help to enhance the business scale and profit base and contribute to steady growth of cash flow for the Company. The Acquisition will further strengthen the core strengths of the Company in the investment, management and operation of highways, and in line with the development strategy and overall interests of the Company as a whole. The Acquisition is the result of the negotiation between the Company and SIHCL which the Company has seized the favourable market opportunity. It is a win-win proposal which fully demonstrated the positive attitude of SIHCL in supporting SZ International and the Company's development and strengthened the positive image of SIHCL in keeping its commitment.

The Directors (including the independent non-executive Directors whose view has been set out in this circular) consider that the terms and conditions of the Acquisition Agreement are in normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Mr. Hu Wei, Mr. Zhao Jun Rong, Mr. Tse Yat Hong, Mr. Liu Ji and Mr. Liao Xiang Wen, all being Directors as at the date of the Board meeting held on 8 December 2017 and are connected with SZ International or Coastal Company, have abstained from voting on the resolution in respect of the Acquisition Agreement in the Board meeting. Save for the aforesaid Directors, none of the Directors is required to abstain from voting on the resolution in respect of the Acquisition Agreement in the Board meeting.

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## LETTER FROM THE BOARD

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### **(VII) Information on Sihcl, Sz International and the Company**

#### ***SIHCL***

SIHCL is principally engaged in property rights management, capital operation, investment and financing business. It owns 44.2% equity interest in SZ International indirectly as at the Latest Practicable Date.

#### ***SZ International***

SZ International and its subsidiaries are principally engaged in the investment, construction, and operation of logistic infrastructure facilities, as well as providing various value-added logistic services to customers leveraging its infrastructure facilities and information services platform.

#### ***The Company***

The Company and its subsidiaries are principally engaged in the investment, construction, operation and management of toll highways and roads, as well as other urban and transportation infrastructure facilities.

### **(VIII) Implications Under the Listing Rules**

As at the Latest Practicable Date, the Company is owned as to approximately 51% by SZ International, SIHCL is the controlling shareholder (as defined under the Listing Rules) of SZ International which indirectly holds approximately 44.2% equity interest in SZ International. As at the date of the Acquisition Agreement, SIHCL was the sole shareholder of Coastal Company. Accordingly, SIHCL and Coastal Company are connected persons of the Company pursuant to Chapter 14A of the Listing Rules, and the transaction contemplated under the Acquisition Agreement constitutes a connected transaction of the Company.

As the applicable percentage ratios of the transaction under the Acquisition Agreement are more than 5% but lower than 25%, the transaction contemplated under the Acquisition Agreement is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules, and subject to the reporting, announcement and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

### **APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTOR**

The Board received a letter of resignation from Mr. Hu Chun Yuan, an independent non-executive Director on 5 January 2018. Due to personal career reasons, Mr. Hu Chun Yuan resigned from the position of independent non-executive Director and cease to act as the chairman of the audit committee and a member of the remuneration committee of the Board.

On 18 January 2018, the Board held a meeting and approved that Mr. Bai Hua be nominated as the candidate of the independent non-executive Director and be proposed to the general meeting of the Company for consideration.

Resume of Mr. Bai Hua is as follows:

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## LETTER FROM THE BOARD

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Mr. BAI Hua, born in 1969, a Certified Public Accountant of PRC (non-practicing), obtained a doctor degree in business administration from Wuhan University. He has extensive research and practical experience in auditing and internal control. Mr. Bai has worked in accounting department of Jinan University since July 2003 and now serves as professor and doctoral tutor of accounting department of Jinan University. Mr. Bai is currently also a director of Guangdong Audit Association, an independent director of Guangzhou Echom Science & Technology Co., Ltd. (a PRC listed company) and Yipinhong Pharmaceutical Co., Ltd. (a PRC listed company). He had been an independent director of Youngy Co., Ltd. (a PRC listed company) and MIG Unmobi Technology INC. (a PRC listed company) and an independent supervisor of Guangdong Yueyun Transportation Company Limited (a Hong Kong listed company).

Save as disclosed above, Mr. Bai Hua also confirms that (i) he did not hold any other directorships in any other listed public companies in the last three years; (ii) he has no relationship with any Directors, supervisors, senior management or substantial Shareholders or controlling Shareholders of the Company; and (iii) he has no interest in the shares of the Company within the meaning of Part XV of the SFO.

Save as disclosed above, the Company considers that there is no information which is discloseable nor is/was Mr. Bai Hua involved in any of the matters required to be disclosed pursuant to any of the requirements of the provisions under Rule 13.51(2) of the Listing Rules, and there is no other matter relating to the nomination of Mr. Bai Hua that needs to be notified the Shareholders.

The candidacy of Mr. Bai Hua as independent non-executive Director will be effective only after it has been examined and has not been objected by the Shanghai Stock Exchange.

Upon approval at the EGM, the appointment of Mr. Bai Hua will be effective immediately, with the term of office ending on 31 December 2020. The Company will enter into a director's service contract with Mr. Bai Hua. As approved by the extraordinary general meeting of the Company held on 28 December 2017, the Director's fee for independent non-executive Director is RMB210,000 (before tax) per annum. In addition, Directors who attend or observe the relevant meetings shall obtain meeting subsidy for the meetings. The standard of meeting subsidy for attending each meeting will be RMB1,000 (after tax) and the standard of meeting subsidy for observing each meeting will be RMB500 (after tax).

### **EGM**

The Company will convene the EGM at the conference room of the Company at Podium Levels 2-4, Jiangsu Building, Yitian Road, Futian District, Shenzhen, the PRC at 2 p.m. on 8 February 2018 (Thursday) to consider and, if thought fit, to approve the Acquisition Agreement and the transaction contemplated thereunder, and the appointment of Mr. Bai Hua as an independent non-executive Director. Pursuant to Rule 13.39(4) of the Listing Rules and the Articles of Association of the Company, voting at the EGM will be taken by poll.

The Company has published and despatched to the Shareholders a notice of the EGM (the "**Original EGM Notice**"), together with the reply slip and the proxy form of the EGM (the "**Original Proxy Form**") for consideration of the resolution in relation to the Acquisition Agreement and the transaction contemplated thereunder on 22 December 2017. On 19 January 2018, Xin Tong Chan Development (Shenzhen) Company Limited, a shareholder holding approximately 30.03% of the issued share capital of the Company, requested in writing for the inclusion of the following resolution to be considered at the EGM pursuant to the applicable PRC laws and regulations: To consider and approve the resolution in relation to the appointment of the independent Director of the eighth session of the Board of Directors of the Company: Mr. Bai Hua be appointed as an independent Director of the eighth session of the Board of Directors of the Company with immediate effect until 31 December 2020 (such candidacy shall be eligible only if the Shanghai Stock

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## LETTER FROM THE BOARD

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Exchange has no objection). Due to the inclusion of the resolution in relation to the appointment of Mr. Bai Hua as an independent non-executive Director, the Company revised the Original EGM Notice and the Original Proxy Form. The Revised EGM Notice and the Revised Proxy Form shall supersede the Original EGM Notice and the Original Proxy Form, respectively. The reply slip published and despatched on 22 December 2017 shall remain unchanged and valid. The Revised EGM Notice is set out on pages EGM-1 to EGM-3 of this circular.

As at the Latest Practicable Date, SZ International indirectly owns approximately 51% of the issued share capital of the Company, and SIHCL is the controlling shareholder (as defined under the Listing Rules) of SZ International and indirectly owns approximately 44.2% of the issued share capital of SZ International. As such, SIHCL and its associates (including SZ International and its associates) shall abstain from voting in respect of the resolution(s) approving the Acquisition Agreement and the transaction contemplated thereunder in the EGM. To the best knowledge, information and belief of the Directors, save for SIHCL and its associates (including SZ International and its associates), no other Shareholder is required abstain from voting in respect of the resolution approving the Acquisition Agreement and the transaction contemplated thereunder in the EGM.

Whether or not you intend to attend the EGM, you are requested to complete the Revised Proxy Form in accordance with the instructions printed thereon and return the same to the registrar of H Shares of the Company, Hong Kong Registrars Limited, 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for H Shareholders) or to the Company at Podium Levels 2-4, Jiangsu Building, Yitian Road, Futian District, Shenzhen, the PRC (for A Shareholders) as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the EGM (the "**Closing Time**").

If a Shareholder has already lodged the Original Proxy Form despatched by the Company on 22 December 2017, he/she/it should note that:

- (a) if no Revised Proxy Form is lodged by the Shareholder, the Original Proxy Form will be treated as a valid proxy form lodged by the Shareholder if duly completed. The proxy appointed under the Original Proxy Form will also be entitled to vote in accordance with the instructions previously given by the Shareholder or at his/her/its discretion (if no such instructions are given) on any resolution properly put to the EGM, including the new resolution regarding the appointment of Mr. Bai Hua as an independent non-executive Director as set out in the Revised EGM Notice;
- (b) if the Revised Proxy Form is lodged by the Shareholder before the Closing Time, the Revised Proxy Form will be treated as a valid proxy form lodged by such Shareholder if duly completed, and the Original Proxy Form will be revoked and superseded by the Revised Proxy Form; and
- (c) if the Revised Proxy Form is lodged by the Shareholder after the Closing Time, or if lodged before the Closing Time but is incorrectly completed, the Revised Proxy Form will be deemed invalid. It will not revoke the Original Proxy Form previously lodged by the Shareholder. The Original Proxy Form will be treated as a valid proxy form if duly completed. The proxy appointed under the Original Proxy Form will also be entitled to vote in accordance with the instructions previously given by the Shareholder or at his/her/its discretion (if no such instructions are given) on any resolution properly put to the EGM (including the new resolution regarding the appointment of Mr. Bai Hua as an independent non-executive Director as set out in the Revised EGM Notice).



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## LETTER FROM THE BOARD

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Completion and return of the Original Proxy Form and/or the Revised Proxy Form will not preclude you from attending and voting in person at the EGM or any adjourned meeting(s) should you so wish.

### RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee and the letter from the Independent Financial Adviser, respectively, which set out their recommendations in respect of the Acquisition Agreement and the principal factors considered by them in arriving at their recommendations.

The Board (including all the independent non-executive Directors) considers that the terms of the Acquisition Agreement and the transaction contemplated thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, and the entering into of the Acquisition Agreement and the transaction contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including all the independent non-executive Directors) recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition Agreement and the transaction contemplated thereunder.

The Board considers that the appointment of Mr. Bai Hua as an independent non-executive Director is in the interests of the Company and the Shareholders as a whole, and therefore recommends all the Shareholders to vote in favour of the relevant resolution at the EGM.

### FURTHER INFORMATION

A valuation of Coastal Company has been prepared by Pengxin Appraisal, the text of which is set out in Appendix I to this circular.

A traffic study on the Coastal Project has been prepared by GPCPDI, the text of which is set out in Appendix II to this circular.

As the valuation of Coastal Company is prepared on the basis of discounted cash flow method, the valuation has been deemed as a profit forecast under the Listing Rules. Letters from Ernst & Young, the auditor of the Company and the Board relating to discounted future estimated cash flows in connection with the valuation of Coastal Company, which are prepared pursuant to Rules 14.62 and 14.71 of the Listing Rules, are set out in Appendix III to this circular.

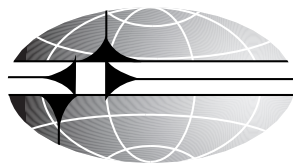
Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,  
By Order of the Board of  
**Shenzhen Expressway Company Limited**  
**HU Wei**  
*Chairman*

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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**深圳高速公路股份有限公司**  
**SHENZHEN EXPRESSWAY COMPANY LIMITED**

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*  
**(Stock Code: 00548)**

23 January 2018

*To the Independent Shareholders*

**DISCLOSEABLE AND CONNECTED TRANSACTION**  
**ACQUISITION OF COASTAL COMPANY**

Dear Sirs or Madams,

We refer to the circular of the Company dated 23 January 2018 (the “**Circular**”), in which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter will have the same meanings as defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise you in relation to the Acquisition Agreement and the transaction contemplated thereunder.

We wish to draw your attention to the letter from the Independent Financial Adviser set out on pages 17 to 29 of the Circular and the letter from the Board set out on pages 4 to 15 of the Circular.

Having taken into account the principal factors and reasons considered by TC Capital, the Independent Financial Adviser, regarding the Acquisition Agreement and the transaction contemplated thereunder and its recommendation and advice, we concur with the view of the Independent Financial Adviser and consider that the Acquisition Agreement and the transaction contemplated thereunder is in the ordinary and usual course of business of the Company and the terms thereunder are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned, the Acquisition Agreement and the transaction contemplated thereunder is in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the EGM.

Yours faithfully,  
**HU Chun Yuan**  
**CAI Shu Guang**  
**WAN Siu Wah Wilson**  
**CHEN Xiao Lu**  
*Independent Board Committee*

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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*Set out below is the text of a letter received from TC Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisition Agreement and the transactions contemplated thereunder, for the purpose of inclusion in this circular.*



23 January 2018

*The Independent Board Committee and the Independent Shareholders of*  
**Shenzhen Expressway Company Limited**

Dear Sirs,

### **DISCLOSEABLE AND CONNECTED TRANSACTION ACQUISITION OF COASTAL COMPANY**

#### **INTRODUCTION**

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Acquisition Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular dated 23 January 2018 issued by the Company to the Shareholders (the “**Circular**”), of which this letter forms part. Terms used herein shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 11 December 2017, the Company (as purchaser), SIHCL (as vendor) and Coastal Company entered into the Acquisition Agreement, pursuant to which the Company agreed to acquire 100% equity interest in Coastal Company from SIHCL at a consideration of RMB1.472 billion (approximately HK\$1.712 billion).

As at the Latest Practicable Date, the Company was owned as to approximately 51% by SZ International. SIHCL is the controlling shareholder (as defined under the Listing Rules) of SZ International which indirectly holds approximately 44.2% equity interest in SZ International. As at the date of the Acquisition Agreement, SIHCL was the sole shareholder of Coastal Company. Accordingly, SIHCL and Coastal Company are connected persons of the Company pursuant to Chapter 14A of the Listing Rules, and the transactions contemplated under the Acquisition Agreement constitute a connected transaction of the Company.

As the applicable percentage ratios of the transactions under the Acquisition Agreement are more than 5% but lower than 25%, the transactions contemplated under the Acquisition Agreement are subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules, and are subject to the reporting, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

An Independent Board Committee comprising all independent non-executive Directors, namely Mr. Hu Chun Yuan, Mr. Cai Shu Guang, Mr. Wan Siu Wah Wilson and Ms. Chen Xiao Lu, has been established to advise the Independent Shareholders in relation to the Acquisition Agreement and the transactions

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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contemplated thereunder. Our role as the Independent Financial Adviser is to provide independent opinion and recommendation to the Independent Board Committee and the Independent Shareholders on whether the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are on normal commercial terms, and whether the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group.

As at the Latest Practicable Date, we did not have any relationships or interests with the Group or any other parties involved in the Acquisition that could reasonably be regarded as relevant to our independence. We have not acted as an independent financial adviser or financial adviser for other transactions of the Group in the last two years from the date of the Circular. In addition to acting as the Independent Financial Adviser, we also act as the independent financial adviser to the independent board committee and independent shareholders of SZ International in respect of the Acquisition as detailed in the circular of SZ International dated 19 January 2018. Given (i) our independent role in the abovementioned engagements; and (ii) that our fees for the abovementioned engagements represent an insignificant percentage of our revenue, we consider that the abovementioned engagements would not affect our independence to form our opinion in respect of the Acquisition.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have considered, among other things, (i) the Acquisition Agreement; (ii) the valuation report prepared by Pengxin Appraisal in respect of the market value of the entire shareholder's interests in Coastal Company (the "**Valuation Report**"); (iii) other information as set out in the Circular; (iv) the annual report of the Company for the year ended 31 December 2016 (the "**2016 Annual Report**") and the interim report of the Company for the six months ended 30 June 2017 (the "**2017 Interim Report**"); and (v) the relevant market information and trends of the related industry. We have also relied on all relevant information, opinions and facts supplied and represented by the Company, the Directors and the management of the Company.

We have assumed that all such information, opinions, facts and representations, which have been provided by the Company, the Directors and the management of the Company and for which they are fully responsible, are true, accurate and complete in all respects as at the date hereof and may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, the Directors and the management of the Company, and the Company has confirmed that no material facts have been withheld or omitted from the information provided and/or referred to in the Circular, which would make any statement therein misleading.

We consider that we have reviewed sufficient information currently available to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular so as to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information provided by the Company, the Directors and the management of the Company, nor have we conducted any independent investigation into the business affairs, operations, financial position or future prospects of the Group, SIHCL, SZ International and Coastal Company and their respective subsidiaries and/or associated companies.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

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

# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

## I. Background of and reasons for entering into the Acquisition Agreement

### 1. Information of the Company, SIHCL, SZ International and Coastal Company

#### a) The Company

As stated in the Letter from the Board, the Company and its subsidiaries are principally engaged in the investment, construction, operation and management of toll highways and roads, as well as other urban and transportation infrastructure facilities. During the previous years, the Company has been entrusted by SIHCL to manage Coastal Company, and also entrusted by Coastal Company to manage the construction of Coastal Project and the operation of Coastal Phase I. For details, please refer to the joint announcements of SZ International and the Company dated 6 November 2009, 9 September 2011, 1 June 2016, 16 June 2016 and 30 December 2016, the circular of the Company dated 4 October 2011, and the announcement of the Company dated 19 August 2014.

The table below summarises the financial information of the Group for the two years ended 31 December 2016 (“FY2015” and “FY2016”, respectively) and the six months ended 30 June 2016 and 2017 (“1H2016” and “1H2017”, respectively) as extracted from the 2016 Annual Report and the 2017 Interim Report:

	For the year ended 31 December				For the six months ended 30 June			
	2015		2016		2016		2017	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
	(audited)		(audited)		(unaudited)		(unaudited)	
Revenue								
- Toll highways	3,014,057	88.12	3,679,988	81.20	1,765,702	85.58	1,956,878	92.81
- Entrusted management services	94,617	2.77	121,417	2.68	97,827	4.74	34,929	1.66
- Engineering consulting	191,396	5.60	333,918	7.37	135,404	6.56	-	-
- Real estate development	-	-	253,685	5.60	-	-	55,783	2.65
- Advertising and others	120,508	3.51	143,201	3.15	64,195	3.12	60,795	2.88
Total revenue	<u>3,420,578</u>	<u>100</u>	<u>4,532,209</u>	<u>100</u>	<u>2,063,128</u>	<u>100</u>	<u>2,108,385</u>	<u>100</u>

We noted from the table above that the revenue of the Group is mainly contributed by revenue from toll highways, which accounted for approximately 88.12%, 81.20% and 92.81% for FY2015, FY2016 and 1H2017 respectively. The revenue of the Group increased by approximately 32.50% from approximately RMB3,420.58 million for FY2015 to approximately RMB4,532.21 million for FY2016. According to the 2016 Annual Report, such increase in revenue was mainly contributed by the acquisition of Shenzhen Qinglong Expressway Company Limited, which was included into the consolidated financial statements of the Group since 30 October 2015 and contributed revenue from toll highways of approximately RMB513.69 million for FY2016. The Group also recognised real estate development revenue of approximately RMB253.69 million for FY2016 due to a property development project in Longli. The revenue of the Group slightly increased by approximately 2.19% from approximately RMB2,063.13 million for 1H2016 to approximately RMB2,108.39 million for 1H2017. As stated in the 2017 Interim Report, the increase was mainly due to the increase in toll revenue of the existing ancillary toll highways mainly due to the growth of toll revenue of

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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certain expressway projects benefitting from the organic growth of traffic volume, the improvement of neighbouring road networks and the induced growth of traffic volume after the implementation of the toll-free policy for three expressway projects but offset by the effect of de-consolidation of Shenzhen Expressway Engineering Consulting Company Limited from the Group's financial statements.

The Directors advised us that the Group will continue to focus on its toll highway business going forward. With reference to the 2017 Interim Report, the Group will carry out in-depth improvement for the standardised management of the platform of Shenzhen Expressway Operation Development Company Limited and strengthen management and control on costs, with a view to further consolidate and enhance the quality and level of integrated operational service. The Group will also explore new growth points on toll by way of site inspections, route comparison and data analysis, while launching targeted marketing and promotion activities to increase the toll revenue. Meanwhile, it will continue to carry out research, selection and examination of both toll highway projects and projects relating to new industries, as well as ongoing risk monitoring and management in line with the Group's development strategies.

b) *SIHCL*

As stated in the Letter from the Board, SIHCL is principally engaged in property rights management, capital operation, investment and financing business. It owned approximately 44.2% equity interest in SZ International indirectly as at the Latest Practicable Date.

c) *SZ International*

As stated in the Letter from the Board, SZ International and its subsidiaries are principally engaged in the investment, construction, and operation of logistic infrastructure facilities, as well as providing various value-added logistic services to customers leveraging its infrastructure facilities and information services platform.

d) *Coastal Company*

As stated in the Letter from the Board, Coastal Company is a limited liability company established in the PRC and its principal business is the construction, operation and management of Coastal Project. Guangshen Coastal Expressway (Provincial Line S3) is an important channel connecting Guangzhou and Shenzhen, and Guangdong and Hong Kong. It has a total length of approximately 90 km connecting Huangpu District in Guangzhou and Nanshan District in Shenzhen. Coastal Project is the Shenzhen section of Guangshen Coastal Expressway, extending from Dongbao River, the boundary between Dongguan and Shenzhen, to Nanshan District, Shenzhen and connecting with Shenzhen Western Corridor in the south. Coastal Project is a dual eight-lane expressway with the total mileage of approximately 37 km. It comprises two phases. Coastal Phase I is on the main line of Guangshen Coastal Expressway. It has a toll mileage of approximately 30.9 km and was opened to traffic on 28 December 2013 with a toll collection period of 25 years. Coastal Phase II includes the connection line on the Shenzhen side of Shenzhen-Zhongshan Channel, Airport Interchange, International Convention and Exhibition Center Interchange, etc., with a total length of approximately 5.7 km. The construction of Coastal Phase II commenced in December 2015 and is scheduled to be opened to traffic by end of 2019.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the Coastal Project investment and financing plan approved by the Shenzhen government, the estimated total cost of Coastal Project is approximately RMB16.7 billion. The government shall contribute RMB10.3 billion and Coastal Company shall contribute RMB6.4 billion, which shall be financed by bank loan (of which Coastal Phase I and Coastal Phase II amounted to RMB5.4 billion and RMB1.0 billion respectively) after pledging its toll-collection right to such bank. As at the Latest Practicable Date, the government had contributed approximately RMB7.1 billion. Coastal Company has pledged the toll-collection right of Coastal Project to a syndicate led by China Development Bank and has applied for a syndicated loan facility totaling RMB5.4 billion, of which a cumulated amount of RMB4.7 billion was utilised.

For FY2016 and the ten months ended 31 October 2017, the average daily traffic flow of Coastal Phase I was approximately 73,600 vehicles and 77,200 vehicles, and the average daily toll revenue was approximately RMB1,065,800 and RMB1,113,800, respectively.

The table below sets out the financial information (after retrospective adjustment) of Coastal Company for the two years ended 31 December 2016 and the ten months ended 31 October 2017:

	<b>For the year ended 31 December</b>		<b>For the ten months ended 31 October</b>
	<b>2015</b>	<b>2016</b>	<b>2017</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(audited)	(audited)
Net loss (before tax)	(145,944.08)	(108,250.41)	(57,345.53)
Net loss (after tax)	(145,944.08)	(108,250.41)	(57,345.53)
			<b>As at 31 October</b>
			<b>2017</b>
			<i>RMB'000</i>
			(audited)
Net asset	1,637,595.94	1,529,345.53	1,472,000.00

As shown in the above table, Coastal Company recorded net losses of approximately RMB145.94 million, RMB108.25 million and RMB57.35 million for the two years ended 31 December 2016 and the ten months ended 31 October 2017, respectively. As advised by the Directors, the net losses of Coastal Company were principally due to its operating costs and its finance costs for Coastal Project. The construction of Coastal Phase I has been completed while the construction of Coastal Phase II commenced in December 2015 and is scheduled to be opened to traffic by end of 2019.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 2. *Economic and industry development of Guangdong Province*

In 2016, according to statistics issued by the National Bureau of Statistics of China, the economy in the PRC experienced a growth with 6.7% increase in gross domestic product (“GDP”), while GDP of Guangdong Province has led the PRC’s GDP growth rate and grew 7.5% in the same year. Guangdong Province’s economy benefited from the implementation of a series of new reform policies, such new reform policies included government promoting the coordinated development within the Guangdong Province and improving the economic structure by industrial technological innovation and high end oriented development of the service industry.

The table below sets out the annual growth rate of the real GDP and urbanisation rate of Guangdong Province and the PRC from 2012 to 2016:

	2012	2013	2014	2015	2016
	%	%	%	%	%
Real GDP growth rate – Guangdong Province	8.2	8.5	7.8	8.0	7.5
Real GDP growth rate – the PRC	7.7	7.7	7.4	6.9	6.7
Urbanisation rate ( <i>Note</i> ) – Guangdong Province	67.40	67.76	68.00	68.71	69.20
Urbanisation rate ( <i>Note</i> ) – the PRC	52.57	53.73	54.77	56.10	57.36

*Source:* National Bureau of Statistics of China, Statistics Bureau of Guangdong Province

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

Due to the rural and urban integration development in Guangdong Province, Guangdong Province’s urbanisation rate maintained at a level above the PRC urbanisation rate since 2012. Such development will benefit to the industry of infrastructure construction, traffic consolidation and logistics. According to the Guangdong Province Urban Public Transport Development Plan (2016-2020) (《廣東省城市公共交通發展規劃》(2016-2020年)) published by the Transport Department of Guangdong Province, the Guangdong provincial government expects that the urbanisation rate will reach 71.7% in 2020, the development of traffic and logistic supports have to be sped up in order to cater to the rising of demand for the transportation facilities.

### 3. *Traffic volume and toll revenue of Coastal Project*

As advised by the Directors, the table below summarises the average daily traffic volume and annual toll revenue of Coastal Project (only including Coastal Company) and its growth rate for the two years ended 31 December 2016:

	For the year ended 31 December	
	2015	2016
Average daily traffic volume (vehicles)	63,100	73,600
Average daily traffic volume growth rate (%)	35.4	16.6
Annual toll revenue (RMB millions)	324	390
Annual toll revenue growth rate (%)	20.4	20.6



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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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The above table shows that the average daily traffic volume and annual toll revenue maintained a double digit growth rate for FY2015 and FY2016. Since Coastal Phase II is under construction, the traffic volume and toll revenue of Coastal Project is expected to increase when Coastal Phase II is opened to traffic. According to the traffic study report set out in appendix II to the Circular, based on the moderate scenario, the annual toll revenue of Coastal Project (including Coastal Phase I and Coastal Phase II) is expected to reach approximately RMB1,462.48 million in 2038.

#### *4. Reasons for and benefits of entering into the Acquisition Agreement*

As stated in the Letter from the Board, the investment, construction, operation and management of toll highways and roads are in the ordinary and usual course of business of the Company. The Directors consider that Guangshen Coastal Expressway is an important core passage going through the north-south of the Pearl River Delta region. It is also an important corridor connecting Guangzhou, Shenzhen and Hong Kong within the Guangdong-Hong Kong-Macau Greater Bay Area (the “**Bay Area**”). It enjoys an excellent geographical location and an economically viable neighbourhood region. According to the State Council’s Guiding Opinions on Deepening Pan-Pearl River Delta Regional Co-operation (《國務院關於深化泛珠三角區域合作的指導意見》) published by the State Council on 3 March 2016, the PRC government advised to strengthen the cooperation between the PRC, Hong Kong and Macau. Such opinion highlighted to foster the major infrastructure projects, in particular, the transportation development to connect with Hong Kong, Macau and the PRC including but not limited to the construction of Hong Kong-Zhuhai-Macao Bridge and Liantang/Heung Yuen Wai Boundary Control Point. According to the article headed “Visit to Guangdong-Hong Kong-Macao Bay Area” from the website of the Office of the Chief Executive of Hong Kong, Hong Kong, Macau and Guangdong have been maintaining close liaison with the National Development and Reform Commission to actively take forward and launch a joint study to prepare a development plan for the Bay Area, which encompasses 11 cities with a total population of over 66 million and an economic size of more than US\$1.3 trillion. The development of Guangshen Coastal Expressway, which connects Guangzhou and Shenzhen, and Guangdong and Hong Kong, is in line with the general development plan of the PRC government.

As stated in the Letter from the Board, the Directors expected that the Acquisition will further strengthen the core strengths of the Company in the investment, management and operation of highways, and is in line with the development strategy and overall interests of the Company as a whole. The principal business of Coastal Company is the construction, operation and management of Coastal Project, which involves the Shenzhen section of Guangshen Coastal Expressway. According to the 2016 Annual Report, the Company stated that it will closely monitor the investment prospect and opportunities of the projects in the main route of national highways which have commenced operation or will soon commence operation. During 1H2017, the Company has continuously invested in several expressway projects including but not limited to the investment in the project of Shenzhen section of Outer Ring Expressway in Shenzhen. As further mentioned in the above paragraph headed “1. Information of the Company, SIHCL, SZ International and Coastal Company – a) The Company”, the revenue of the Group is mainly contributed by revenue from toll highways, which accounted for approximately 88.12%, 81.20% and 92.81% for FY2015, FY2016 and 1H2017 respectively. Furthermore, according to the 2017 Interim Report, the Company wholly and/or non-wholly owned a total of 17 toll highway projects, in which 8, 5 and 4 are located in the Shenzhen region, other regions in Guangdong Province and other provinces in the PRC, as at 30 June 2017. The Company has managed to operate with a number of toll highways in its ordinary and usual course of business.

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We noted that Coastal Company has been in a loss making position in the past few years mainly due to its operating costs and its finance costs for Coastal Project. In this regard, the Directors advised us that Coastal Phase I is in the preliminary stage of operation and Coastal Phase II is still in the construction phase and is scheduled to be opened to traffic by the end of 2019. In addition, the surrounding road network of Coastal Project is not comprehensive enough currently and the traffic diversion function of Coastal Project has not been fully played. The Directors expected that the Acquisition will have a negative impact on the operating results of the Company in the short term. However, as stated in the Letter from the Board, based on the Company's experience in expressway operation and management, an expressway usually experiences losses in its early stage of operation and may turn from loss to profit after several years of operation. Since the loss incurred by Coastal Company is diminishing gradually over time, which is in line with the business development pattern of an expressway, it is expected that Coastal Company will continue to reduce its loss and start to realise gain in the near future. Furthermore, with the steady development of the regional economy along Coastal Project, the expected commencement of operation of Coastal Phase II by the end of 2019, the operation of Coastal Project having entered into a more mature stage and the constant improvement of its surrounding road networks, the Directors expected that the operating performance of Coastal Project will have a rapid growth. As further advised by the Directors, the expected improvement of the surrounding road network of Coastal Project in the foreseeable future includes (i) the construction of the route connecting Guangshen Coastal Expressway (Provincial Line S3) and Jihe Expressway; (ii) the improvement of Jihe Expressway; (iii) the construction of Outer Ring Expressway in Shenzhen, which will connect to Guangshen Coastal Expressway (Provincial Line S3); and (iv) the construction of Shenzhong Expressway, which will connect to Guangshen Coastal Expressway (Provincial Line S3). The abovementioned improvement of the surrounding road network are likely to stimulate the traffic volume of Guangshen Coastal Expressway (Provincial Line S3) in the foreseeable future. Therefore, the Acquisition would likely to help enhance the business scale and profit base and contribute to the steady growth of cash flow for the Group.

Having taken into account (i) the general development plan of the PRC government; (ii) the Acquisition is in line with the development strategy of the Company to further strengthen the core strengths of the Company in the investment, construction, management and operation of highways; and (iii) the prospects of Coastal Company as expected by the Directors, we concur with the Directors that the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole.

## II. Principal terms of the Acquisition Agreement

On 11 December 2017, the Company (as purchaser), SIHCL (as vendor) and Coastal Company entered into the Acquisition Agreement, pursuant to which the Company agreed to acquire and SIHCL agreed to sell 100% equity interest in Coastal Company at a consideration of RMB1.472 billion (approximately HK\$1.712 billion).

### *Consideration and payment arrangements*

As set out in the Letter from the Board, the consideration for the acquisition of 100% equity interest in Coastal Company is RMB1.472 billion (approximately HK\$1.712 billion), which shall be paid by the Company to SIHCL in the following manners:

- (i) within 10 working days from the date of the Acquisition Agreement, the Company shall pay 50% of the consideration, being RMB736 million (approximately HK\$856 million) to SIHCL, and the Company and SIHCL shall enter into a joint account agreement with

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a commercial bank agreed by both parties and open a joint account in the name of SIHCL under the common control of the parties for depositing the remaining consideration.

- (ii) within 15 days upon the effective conditions of the Acquisition Agreement have been fully satisfied or exempted/waived (and in any event not later than 31 December 2017), such effective conditions are namely, SIHCL having completed the statutory procedures for the transfer of state-owned assets in accordance with the law; the shareholder of Coastal Company having considered and approved the Acquisition; and having obtained letter(s) of consent from the financial institution creditors of Coastal Company, the Company, SIHCL and Coastal Company shall promptly handle the business registration in relation to the Acquisition. As at the Latest Practicable Date, the effective conditions of the Acquisition Agreement had been fully satisfied.
- (iii) the Company shall deposit the remaining 50% consideration of RMB736 million (approximately HK\$856 million) into the joint account as set out in (i) above within 10 working days after completion of the matters below (and in any event not later than 31 December 2017):
  - (a) the effective conditions to the Acquisition Agreement as set out in (ii) above have been fully satisfied or waived; and
  - (b) the Market and Quality Supervision Commission of Shenzhen Municipality having approved the business registration of the acquisition of equity interest in Coastal Company by the Company and issued a new business license or notice of change to Coastal Company.
- (iv) within 5 working days from the Acquisition having been approved by the Shareholders in the general meeting, the Company shall release its control on the joint account and the fund in the joint account shall be owned by SIHCL.

As at the Latest Practicable Date, the consideration has been paid by the Company and has been funded by the Company's internal resources and borrowing. The business registration in relation to the Acquisition has been approved.

Having taken into account that the above payment arrangements reflect each stage of the progress of the Acquisition, such as the fulfillment of the effective conditions under the Acquisition Agreement and the approval of business registration changes, we concur with the Directors that the above payment arrangements are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

### ***Other terms***

- (i) The investment and financing plan of Coastal Phase II was determined by the relevant Shenzhen governmental authorities. Upon completion of the Acquisition, Coastal Company shall continue to follow the government approval to complete the investment and financing plan.

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- (ii) During the previous years, the Company has been entrusted by SIHCL to manage Coastal Company, and also entrusted by Coastal Company to manage the construction of Coastal Project and the operation of Coastal Phase I. Among such entrustment projects, the construction of Coastal Phase I was completed, and the settlement and payment of the relevant construction costs are now in progress. The construction management of Coastal Phase II and the operation management of Coastal Phase I are still undergoing. Pursuant to the Acquisition Agreement, the follow-up arrangements on the entrusted management of Coastal Company and Coastal Project are as follows: except for the settlement and payment of the relevant construction costs, the Entrusted Construction Agreement and the Supplemental Entrusted Construction Agreement in relation to Coastal Project shall be suspended, and the Company shall cease to charge for the construction management fees of Coastal Phase II. As for the Entrusted Operation Agreement in relation to Coastal Phase I, it shall also be suspended save for Coastal Company shall pay the operation management fee to the Company for the period up to the base date (31 October 2017). The Entrusted Operation and Management Agreement shall be suspended after the change of shareholding in Coastal Company.

If the Acquisition is not approved by the Shareholders in the general meeting within 6 months after the date of the Acquisition Agreement, the abovementioned agreements shall resume. If the Acquisition is approved by the Shareholders in the general meeting within 6 months after the date of the Acquisition Agreement, the abovementioned agreements will be terminated except for the settlement and payment of the relevant construction costs under the Entrusted Construction Agreement.

Further details of the Acquisition Agreement have been set out in the Letter from the Board.

### **III. Basis of consideration**

As set out in the Letter from the Board, the consideration was determined after arm's length negotiations between the Company and SIHCL. The principal business of Coastal Company is the construction, operation and management of Coastal Project. Based on the investment and operation experiences and the professional abilities towards the highway projects in the past, the Company comprehensively considered factors including the traffic flow, operation, policy environment and the maturity of the project for assessing the estimated value of Coastal Company; and took into account the Valuation Report prepared by Pengxin Appraisal as the major factors in negotiating the consideration of the Acquisition. The income approach was adopted in the valuation of the market value of the entire shareholder's interests in Coastal Company as at 31 October 2017 by Pengxin Appraisal.

#### ***The Valuation Report***

##### ***a) Methodologies***

We understand that Pengxin Appraisal has considered three generally accepted valuation approaches, namely the market approach, asset-based approach and income approach, in arriving at the valuation of the market value of the entire shareholder's interests in Coastal Company as at 31 October 2017. Due to the failure to collect information of comparable listed companies or comparable transactions with comparable business structure, asset size, scale of operations, profitability and other factors, it is not suitable to use market approach in the evaluation. The asset-based approach may overlook the comprehensive profitability of each asset in the overall assets appraisal and therefore this assessment does not apply the asset-based approach. In respect of the income approach, Pengxin Appraisal considered that the main source of revenue for Coastal Company is toll income and its

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expected annual income is recurring and relatively stable in the future. The future expected return is predictable and can be measured in currency. The risk borne by the asset owner to obtain the expected return is also predictable and can be measured in currency. The expected profit period can be predicted by the enterprise. Therefore, it is appropriate to use the income approach for the evaluation. The income approach refers to the evaluation method of capitalising or discounting the expected benefits and determining the value of the appraised object. Pengxin Appraisal further advised us that income approach is the most appropriate method in valuing the market value of the entire shareholder's interests in Coastal Company based on the fact that income approach is the most commonly used valuation method in valuing toll collection rights.

*b) Discount rate*

When applying the income approach to estimate the market value of the entire shareholder's interests in Coastal Company, it is necessary to determine an appropriate discount rate for the assets under review. We noted that Pengxin Appraisal has used the weighted average cost of capital model (the "WACC") as the discount rate in the Valuation Report. The WACC has been estimated based on a standard formula incorporating the cost of equity and cost of debt as well as a fixed capital structure. We noted that Pengxin Appraisal has used the capital asset pricing model (the "CAPM") to estimate the required rate of return on equity of Coastal Company. We understand that the CAPM technique is widely accepted in the investment and financial analysis communities for the purpose of estimating a company's required rate of return on equity. In arriving at the discount rate, Pengxin Appraisal has taken into account a number of factors including (i) risk free rate; (ii) market return; (iii) company specific risk; and (iv) beta, a measure of non-diversifiable risk, of a number of comparable companies. Such comparable companies are companies listed on the Shenzhen Stock Exchange and the Shanghai Stock Exchange and are engaged in similar business of Coastal Company. As such, we are of the view that it is fair and reasonable to derive beta from these peer companies.

*c) Forecast of operating revenue and corporate free cash flow*

The valuation is based on operating results over previous years of the enterprise under valuation. Estimates on future operation and revenue of Coastal Company are conducted through analysis over revenue, costs, financial structures, business development trends and growth movements. We noted that Pengxin Appraisal has considered and relied to a considerable extent on the traffic study report issued by GPCPDI as set out in appendix II to the Circular (the "Report") when preparing the valuation. According to its website, GPCPDI is principally engaged in design of highways, engineering surveying and provision of consultation on municipal public works. As advised by GPCPDI, it also has the relevant qualification and over 10 years of experience in performing studies on traffic volume and toll revenue of expressways in Shenzhen, other regions in Guangdong and other provinces in the PRC. As discussed with Pengxin Appraisal, Pengxin Appraisal believed that the forecast of operating revenue and corporate free cash flow are reasonable after considering the historical performance of Coastal Company and the Report. We also noted that the Board has issued the letter confirming that the forecast underlying the valuation is made after due and careful enquiry. Based on the above, we consider that the assumptions used in the valuation are fair and reasonable.

*d) Other relevant assumptions*

The valuation has adopted several key assumptions, details of which are disclosed in the paragraph headed "XI. Evaluation assumptions" in the Valuation Report set out in appendix I to the Circular. In order to understand the relevant assumptions used in the valuation, we have discussed

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with Pengxin Appraisal and Pengxin Appraisal has confirmed that the relevant underlying assumptions adopted in the valuation are normally used and fair and reasonable. Based on the review and discussion with Pengxin Appraisal, we consider that the key assumptions used in the valuation are fair and reasonable.

Pursuant to Rule 13.80 of the Listing Rules, in order to assess the expertise and independence of Pengxin Appraisal, we have also performed the following steps:

- (i) obtained and reviewed the terms of engagement (having particular regard to the scope of work, whether the scope of work is appropriate to the opinion required to be given and any limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuation Report);
- (ii) discussed with Pengxin Appraisal as to its current or prior relationships with the Company, SIHCL, SZ International, Coastal Company and their respective connected persons; and
- (iii) reviewed and discussed with Pengxin Appraisal on its past experience on valuation in the similar industry.

Based on our work performed as set out above, we understand that (i) Pengxin Appraisal has more than ten years of experience in valuation and has experience in valuing companies engaged in the construction, operation and management of expressways in the PRC in the past; and (ii) except for its engagements in respect of independent valuation, it has no current or prior relationships with the Company, SIHCL, SZ International, Coastal Company and their respective connected persons. As such, we are not aware of any matters that would cause us to question Pengxin Appraisal's expertise and independence in conducting the valuation.

Independent Shareholders are advised to refer to the Valuation Report contained in appendix I to the Circular for details of the bases and assumptions of the valuation. Given that the consideration for the Acquisition of RMB1.472 billion is equivalent to the valuation of the market value of the entire shareholder's interests in Coastal Company as at 31 October 2017 as appraised by Pengxin Appraisal, we concur with the Directors that the consideration for the Acquisition is fair and reasonable so far as the Independent Shareholders are concerned.

#### **IV. Financial effects of the Acquisition on the Group**

As a result of the Acquisition, Coastal Company would become a wholly-owned subsidiary of the Company, and its financial statements will be included into the consolidated financial statements of the Company.

##### ***I. Earnings***

Coastal Company is currently in a loss making position. Coastal Phase II is still in the construction phase and is scheduled to be opened to traffic by the end of 2019. The Directors expected that the Group will experience a negative impact on the operating results due to the Acquisition in the short term. However, in light of the future prospects of Coastal Company as expected by the Directors, the Directors are of the view that the Acquisition would likely to have a positive impact on the future earnings of the Group in the long run.

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### 2. *Working capital*

As set out in the Letter from the Board, the consideration for the Acquisition of RMB1.472 billion has been paid by the Company and has been funded by the Company's internal resources and borrowing. According to the 2017 Interim Report, the Group had cash at banks and on hand of approximately RMB2,954.28 million as at 30 June 2017. It is expected that the Group's cash at banks and on hand would be reduced as a result of the Acquisition. Furthermore, as confirmed by the Directors, the Group may be required to inject further capital into Coastal Company throughout the course of construction of Coastal Phase II, and the Group has not decided on the methods (e.g. equity and debt financing) to be used to finance such capital injection. For this reason, the Acquisition may affect the working capital position of the Group.

### 3. *Net asset value*

As extracted from the 2017 Interim Report, the unaudited consolidated net asset value of the Group was approximately RMB15,151.01 million as at 30 June 2017. The Directors expected that the Group's net asset value would not be materially affected by the Acquisition.

It should be noted that the aforementioned analyses are for illustrative purposes only and do not purport to represent how the financial position of the Group will be upon completion of the Acquisition.

## V. **Recommendation**

Having taken into account the above principal factors and reasons, we are of the opinion that (i) the terms of the Acquisition Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are on normal commercial terms; and (ii) the entering into of the Acquisition Agreement is in the interests of the Company and the Shareholders as a whole and in the ordinary and usual course of business of the Group. Therefore, we advise the Independent Board Committee to recommend to the Independent Shareholders that they vote in favour of the relevant resolution to approve the Acquisition Agreement and the transactions contemplated thereunder at the EGM and we recommend the Independent Shareholders to vote in favour of the resolution in this regard.

Yours faithfully,

For and on behalf of

**TC Capital International Limited**

**Edward Wu**

*Chairman*

**Stanley Chung**

*Managing Director*

*Note:* Mr. Edward Wu has been a responsible officer of type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance since 2005. Mr. Stanley Chung has been a responsible officer of type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance since 2006. Both Mr. Wu and Mr. Chung have participated in and completed various advisory transactions in respect of connected transactions of listed companies in Hong Kong.

*The following is the valuation report prepared by Pengxin Appraisal for the purpose of incorporation in this circular. This valuation report was prepared in Chinese only and set out below is an English translation of such report. In case of any discrepancies between the Chinese and the English versions of this report, the Chinese version shall prevail.*

PENGXINZIPINGBAOZI[2017] No. S100

## **EVALUATION REPORT**

### **on the Total Value of Shareholders' Equity in Shenzhen Guangshen Yanjiang Expressway Investment Co., Ltd. Involved in the Proposed Acquisition of Equity by Shenzhen Expressway Company Limited**

#### **SHENZHEN EXPRESSWAY COMPANY LIMITED,**

Shenzhen Pengxin Appraisal Limited has conducted an evaluation of the market value of the entire shareholders' equity of Shenzhen Guangzhou-Shenzhen Yanjiang Expressway Co., Ltd. involved in the proposed stock acquisition by your Company as at 31 October 2017 upon your entrust, following the principles of independence, objectivity and fairness, in accordance with the relevant laws, regulations and asset appraisal standards, adopting the income approach and necessary appraisal procedures. The evaluation results are reported as follows:

#### **I. OVERVIEW OF THE PRINCIPAL**

Name of the Principal:	Shenzhen Expressway Company Limited (hereinafter referred to as "Shenzhen Expressway")
Unified Social Credit Code:	91440300279302515E
Registered Address:	Fumin Toll Station, Fucheng Community, Longhua District, Shenzhen
Legal Representative:	Hu Wei
Registered Capital:	RMB2,180,770,326
Economic Nature:	Public Company Limited by Shares
Date of Establishment:	December 30, 1996
Operating Period:	30 years (from December 30, 1996 to December 30, 2026)
Scope of Business:	road investment, road construction management and operation; import and export business (with certificate of competency).



## II. OVERVIEW OF THE EVALUATED ENTERPRISE

### A. Basic Information

#### 1. Registration Information

Company Name:	Shenzhen Guangshen Yanjiang Expressway Investment Co., Ltd. (hereinafter referred to as “ <b>Yanjiang Expressway</b> ”)
Unified Social Credit code:	91440300682010301B
Registered Address:	Room 1303, 4/F, Podium, Jiangsu Building, Yitian Road, Futian District, Shenzhen
Legal Representative:	Liao Xiangwen
Registered Capital:	RMB4,600,000,000
Economic Nature:	limited liability company (legal sole proprietorship)
Date of Establishment:	December 1, 2008
Operating Period:	30 years (from December 1, 2008 until December 1, 2038)
Business Scope:	Investment in construction and operation of Shenzhen section of Guangzhou-Shenzhen Expressway.

The enterprise was registered in Shenzhen Administration for Industry and Commerce on December 1, 2008.

#### 2. Shareholders

As of the base date of evaluation, the contribution and shareholdings of each shareholder of Yanjiang Expressway are as follows:

Investor's Name	Contribution (10,000 yuan)	Shareholding Ratio
1 Shenzhen Investment Holding Co., Ltd.	460,000	100%
Total	460,000	100%

### B. Enterprise History

“Yanjiang Expressway,” a wholly state-owned limited liability company funded by Shenzhen Investment Holdings Co., Ltd. upon the approval of State-owned Assets Supervision and Administration Commission of Shenzhen Municipality, was established on December 1, 2008 and received the Business License with a unified social credit code 91440300682010301B issued by Shenzhen Administration for Industry and Commerce. Its existing registered capital is RMB4.6 billion.

**C. Historical Financial Information of the Enterprise**

The summary Balance Sheets of “Yanjiang Expressway” as of the base date of evaluation and for 2016 are as follows (Unit: RMB10,000):

<b>Item/Year</b>	<b>2016-12-31</b>	<b>2017-10-31</b>
Current Assets	44,781.79	208,352.98
Non-current Assets	666,646.74	654,045.75
Of which: fixed assets	22,240.04	20,472.25
Projects under construction	–	38.88
Intangible assets	644,406.70	633,534.62
<b>Total Assets</b>	<b>711,428.53</b>	<b>862,398.73</b>
Current Liabilities	97,033.33	258,560.46
Non-current Liabilities	461,460.65	456,638.27
<b>Total Liabilities</b>	<b>558,493.98</b>	<b>715,198.73</b>
<b>Total Shareholder’s Equity</b>	<b>152,934.55</b>	<b>147,200.00</b>

The Statements of Income of “Yanjiang Expressway” as of the evaluation date and for 2016 are as follows (Unit: RMB10,000):

<b>Item</b>	<b>2016</b>	<b>January-October, 2017</b>
<b>1. Operating Income</b>	<b>38,573.67</b>	<b>33,134.47</b>
Minus: Operating Cost	26,179.08	18,859.47
Business Tax and Surcharges	514.33	215.61
Administrative Expense	932.25	634.50
Finance Expense	21,668.83	19,170.31
<b>2. Operating Profit</b>	<b>-10,720.82</b>	<b>-5,745.42</b>
Plus: Non-operating Income	0.08	10.86
Minus: Non-operating Expense	104.31	
<b>3. Total Profit</b>	<b>-10,825.04</b>	<b>-5,734.55</b>
Minus: Income Tax Expense		
<b>4. Net Profit</b>	<b>-10,825.04</b>	<b>-5,734.55</b>

*Note:* The above financial data have been audited by Ernst & Young Hua Ming LLP (Special General Partnership), and an audit report [(2017) No. 61278656\_H06] by Ernst & Young Hua Ming was issued.

**D. Products and Services Introduction**

The business scope of “Yanjiang Expressway” is to invest in the construction and operation of the Shenzhen section of Guangzhou-Shenzhen Expressway. The Shenzhen section of the Guangzhou-Shenzhen Yanjiang Expressway (“**the Project**”) is the S3 section of the Expressway starting from Dongbao River at the border of Shenzhen and Dongguan and ending at Moon Bay of Nanshan District, Shenzhen. It connects with the western passage of Shenzhen and Hong Kong and has a total length of 37 kilometers. Adopting a two-way 8-lane highway standard, it is designed for vehicles speeds of 100 km/h.

The construction of the Project is divided into two phases. The first phase of the Project is located along the main highway with a toll mileage of 30.9 kilometers. In 2009 the construction began and on November 21, 2013 trial operations were conducted. On December 28, 2013, the first phase was incorporated into the operation of the Pearl River Delta road network. There are altogether four interchanges, 14 super-large bridges, and one bridge, 99.7% of which is bridge engineering. The two-way eight-lane expressway with a design speed of 100km/h has a main toll station at Qianhai, and four ramp toll stations at Xixiang South, Dachanwan, Xixiang North, and Fuyong, respectively.

The second phase of the Project includes the side-by-side connection of Shenzhen-Zhongshan Passage Expressway (including Hezhou Interchange and Airport Interchange) and the International Convention and Exhibition Center (Shajing) Interchange. The second phase started construction in 2015 and is scheduled to open to traffic by the end of 2019.

According to the reply from the provincial government on an adjustment of the toll-taking period of the Guangzhou-Shenzhen Yanjiang Expressway in 2008 (Yue Ban Han[2008] No. 578), the toll charging period of the Project is 25 years, calculated from the date of Project completion, inspection and acceptance. According to the actual situation of the Project, the charge period is from December 28, 2013 to December 27, 2038.

### **III. OTHER USERS OF THE EVALUATION REPORT**

Other users of this evaluation report include: supervisors and supervisory and administrative departments that are responsible for the examination, approval and filing of assessment reports and their corresponding economic activities in accordance with relevant regulations.

### **IV. PURPOSE OF EVALUATION**

This evaluation assesses the shareholders' equity value of "Yanjiang Expressway" as at 31 October 2017 and provides reference for Shenzhen Expressway of the value of the proposed acquisition.

The Company is not responsible for the objectivity and feasibility of using this report in whole or in part for any purposes other than the above purpose and therefore will not be liable for any consequences whatsoever.

### **V. OBJECT AND SCOPE OF EVALUATION**

The assessment object is: the entire shareholders' equity value of Yanjiang Expressway.

The corresponding assessment range is the total assets and related liabilities of Yanjiang Expressway declared as of October 31, 2017, of which: the total carrying amount of the assets is RMB8,623,987,300, the carrying amount of the total liabilities is RMB7,151,987,300, the carrying amount of the net assets is

RMB1,472,000,000. The assets/liabilities were audited by Ernst & Young Hua Ming LLP (Special General Partnership) which issued an audit report [(2017) No. 61278656\_H06]. The specific asset status is shown in the following table (Unit: RMB10,000):

<b>Item</b>	<b>Carrying Amount</b>	<b>Item</b>	<b>Carrying Amount</b>
Current Assets	208,352.98	Current Liabilities	258,560.46
Non-current Assets	654,045.75	Non-current Liabilities	456,638.27
Of which: Fixed Assets	20,472.25	<b>Total Liabilities</b>	715,198.73
Projects under Construction	38.88		
Intangible Assets	633,534.62		
<b>Total Assets</b>	862,398.73	<b>Total Shareholders' Equity</b>	147,200.00

The object of evaluation and the scope of appraisal are the same as that of the appraisal involved in the economic activities mentioned in the evaluation purposes above.

#### **A. Conditions of Physical Assets**

The physical assets within the scope of this assessment mainly include buildings, equipment assets and so on.

##### **1. Buildings**

The declared building is the Shenzhen Guangzhou-Shenzhen Yanjiang Expressway Operation Management Center, located at Baoyuan Road, Gushu, Bao'an District, Shenzhen, with a floor area of 21,989.56 m<sup>2</sup>. However, since the land it occupies was transferred by the government for public infrastructure construction, which is owned by the government, the declared building does not apply for a property rights certificate.

##### **2. Equipment-class assets**

The declared equipment is divided and classified as transport, transportation, office and electronic equipment, etc., among which: transportation equipment includes the Yanjiang Expressway traffic facilities, network charging items, toll collection, uninterruptible power supplies, mobile generator sets, etc.; Office and electronic equipment refers to computers, air conditioners, printers, sound system in conference rooms, filing cabinets, office furniture, wardrobe, single beds, etc. Various types of equipment are under good maintenance and in normal use.

#### **B. The Recorded or Unrecorded Intangible Assets Declared by the Enterprise**

The declared intangible assets are the franchise rights of the project. The period of toll-collection operations is 25 years from December 28, 2013 to December 27, 2038.

#### **C. The Off-balance Sheet Assets Declared by the Enterprise**

Nil.

**D. Assets Involved in Citing of the Conclusions of other Agencies**

Nil.

**VI. TYPE OF VALUE AND THE DEFINITION**

The value type of this evaluation is the market value of the entire shareholders' equity of Yanjiang Expressway as of the evaluation date.

The so-called market value refers to the estimated transaction value of an asset on the base date of evaluation in an arm's-length transaction after the buyer and the seller voluntarily carry out normal marketing, where both parties are shrewd and cautious, without any coercion or suppression. It is the most probable price that is reasonably available on the open market for an asset to be traded on the following terms:

1. Traded in legal currency.
2. There is a voluntary seller and a willing buyer.
3. The transaction is completed with a one-off payment, no strings attached.
4. Buyers and sellers have a full understanding of the status of the assets, including market supply and demand, prices and other conditions. And there is a reasonable promotion, selection, negotiation as well as the economic environment and time to facilitate the transaction.
5. The market conditions, price levels and other conditions during the transaction are not significantly changed from the base date of assessment.
6. Regardless of the transaction arrangements with special interests, both parties to the transaction engage in a free trade with sufficient market information, rationality and non-compulsion.

**VII. BASE DATE OF EVALUATION**

The base date of project evaluation is October 31, 2017.

The base date of evaluation is determined by "Shenzhen Expressway". The main factors to be considered in determining the base date for assessment are as follows: 1) The accounting period close to the date of realization of economic activity; 2) The relevant assessment data are more complete.

**VIII. BASIS FOR EVALUATION****A. Foundation of Conduct**

The Entrusting Party and the Company signed the asset evaluation commission contract.

**B. Legal Basis**

1. Assets Appraisal Law of the People's Republic of China (Adopted by the 21st Session of the Standing Committee of the Twelfth National People's Congress of the People's Republic of China);
2. The "State-owned Assets Assessment Management Measures" by No.91 Order of the State Council of the People's Republic of China, 1991;
3. The Detailed Rules Governing the Implementation of the Measures for the Appraisal of State-owned Assets promulgated by the original State-owned Assets Supervision and Administration Bureau (GUOZIBANFA [1992] No. 36);
4. "Notice of Forwarding the Opinions on Reforming the Administration of State-owned Assets Assessments and Strengthening the Supervision and Management of Assets Valuation by the Ministry of Finance" issued by the General Office of the State Council ([2001] No. 102) and "Opinions on Reforming the Administration of State-owned Assets Assessments and Strengthening the Supervision and Management of Assets Valuation" by the Ministry of Finance;
5. "Provisions on Issues Concerning the Administration of State-owned Assets Appraisal and Management", Ministerial Decree No. 14 of the Ministry of Finance;
6. "Interim Measures on Appraisal and Management of Enterprise State-owned Assets", No. 12 Decree of the State-owned Assets Supervision and Administration Commission;
7. "Highway Law of the People's Republic of China", No. 19 Order of President of the People's Republic of China, 2004;
8. "Management Measures on Paid Transfer of Highway Management Rights", No. 9 Decree of Ministry of Communications, 1996;
9. "Toll Road Management Regulations", No. 417 Decree of the Ministry of Communications, 2004;
10. "Measures on the Transfer of Rights and Interests of Toll Roads", No.11 Order of the Ministry of Transport, the National Development and Reform Commission, and the Ministry of Finance of the People's Republic of China, 2008;
11. "Notice on Strengthening the Management of Equity Transfer of Toll Roads", Ministry of Transport (JIAOCAIFA [2008] No.315);
12. The current state tax laws and regulations.

**C. Professional Norms**

1. "Basic Standards of Assets Appraisal" by Ministry of Finance of the People's Republic of China (CAIZI [2017] NO. 43).

2. “Code of Ethics for Asset Appraisal” released by China Appraisal Society (CAS) (ZHONGPINGXIE [2017] No.30)
3. “Standards of Asset Appraisal – Procedures” released by CAS (ZHONGPINGXIE [2017] No. 31)
4. “Standards of Asset Appraisal – Asset Appraisal Report” released by CAS (ZHONGPINGXIE [2017] No. 32)
5. “Standards of Asset Appraisal – Asset Appraisal Commission Contract” released by CAS (ZHONGPINGXIE [2017] No. 33)
6. “Standards of Asset Appraisal – Asset Appraisal Filing” released by CAS (ZHONGPINGXIE [2017] No. 34)
7. “Standards of Asset Appraisal – Use of Expert Work and Related Report” released by CAS (ZHONGPINGXIE [2017] No. 35)
8. “Standards of Asset Appraisal – Enterprise Value” released by CAS (ZHONGPINGXIE [2017] No. 36)
9. “Guiding Opinions on Value Types in Asset Appraisal” released by CAS (ZHONGPINGXIE [2017] No. 47)
10. “Guiding Opinions on Ownership of Asset Appraisal Object” released by CAS (ZHONGPINGXIE [2017] No. 48)

**D. Property Rights Basis**

1. Copies of the signed major asset approval and construction documents, charge approval documents and the purchase contract of the Shenzhen section of Guangzhou-Shenzhen Yanjiang Expressway;
2. Motor vehicle driving licenses, invoices, etc;
3. Other proof of property rights.

**E. Pricing Basis and Reference Materials**

1. Inventory declaration assessment schedule provided by Yanjiang Expressway
2. Reply of General Office of Guangdong Provincial People’s Government on the Toll Collection Period of Guangzhou – Shenzhen Expressway along the Pearl River (YCHF [2008] No. 578);
3. Report on Traffic Volume and Fee Revenue of Guangzhou-Shenzhen Expressway Shenzhen Section issued by Guangdong Provincial Traffic Planning and Design Institute Co., Ltd. in November 2017;

4. Conservation Planning Report, provided by the enterprise, for the Shenzhen Section of Guangzhou-Shenzhen Expressway along the Pearl River during the Operation Period;
5. Request by Shenzhen Development and Reform Commission for the Instruction on Financing and Investment of the Second Phase of the Shenzhen Section of Yanjiang Expressway (SDRC [2015] No. 879) and the Minutes of the Meeting on Investment and Financing of Shenzhen Section Phase II Project of Yanjiang Expressway (General Office of Shenzhen Municipal People's Government [2015] No. 274);
6. Financial statements and audit report provided by the enterprise;
7. Future annual profit forecast, capital expenditure plan provided by the enterprise;
8. RoyalFlush Information Network's (RoyalFlush) Financial Information Terminal (www.10jqka.com.cn);
9. Other relevant information.

## **IX. EVALUATION METHOD**

According to "Standards of Assets Appraisal – Enterprise Value", an asset appraiser shall perform an enterprise value appraisal according to the relevant conditions such as appraisal object, value type and data collection, and analyze the applicability of basic assets appraisal methods, income appraisal methods and market appraisal methods to make a proper choice of one or more of the basic methods of asset valuation.

The asset-based approach in enterprise value assessment refers to the method of reasonably appraising and determining the value of various assets and liabilities on and off of the balance sheet of the assessed company as at the base date of the evaluation.

The income approach in the valuation of an enterprise refers to the evaluation method of capitalizing or discounting the expected benefits and determining the value of the appraised object.

The market method in the enterprise value assessment refers to the method of assessing the value of the appraisal object by comparing the evaluated enterprise with comparable listed companies or comparable transaction cases.

### **A. Applicability Analysis and Selection of the Evaluation Method**

The asset-based approach sums up the appraised values of the assets that make up the enterprise minus the appraised value of the liabilities to derive the value of the entire shareholders' equity, which reflects the replacement cost of the appraised company on the base day of evaluation but may overlook the comprehensive profitability of each asset in the overall assets appraisal; therefore, this assessment does not apply the asset-based approach.

The principal business of Yanjiang Expressway is the construction and operation of the Shenzhen section of Guangzhou-Shenzhen Yanjiang Expressway. Since its operation, performance has steadily improved year by year. The main source of revenue for Yanjiang Expressway is toll income and its expected annual income is recurring and relatively stable in the future. The future expected return is predictable and can be measured in currency. The risk borne by the asset owner to



obtain the expected return is also predictable and can be measured in currency. The expected profit period can be predicted by the enterprise. Therefore, it is appropriate to use the income approach for the evaluation.

Due to the failure to collect information of comparable listed companies or comparable transactions with comparable business structure, asset size, scale of operations, profitability and other factors, it is not suitable to use market approach in the evaluation.

According to the assessment purpose, object, value type, data collection and other relevant conditions, this assessment uses the income approach to assess the value of the total shareholders' equity of Yanjiang Expressway.

## B. Introduction to the Income Approach

According to the asset and business operation status of the enterprise, the free cash flow of firm (FCFF) discount method is used in the evaluation of all the shareholders' equity in the evaluated enterprise. The basic idea is to calculate the value of the operating assets of the business by estimating the operating FCFF created by the operating assets/resources of the firm and choosing an appropriate discount rate, adding the non-operating assets and excess of the enterprise asset value, and then subtracting the value of debt service, to get all the shareholders equity value of the assessed enterprise on the evaluation date.

The basic model for evaluation is:  $V=P+\sum C_i-D$

Where: V: the value of the entire shareholders' equity in the enterprise being assessed

P: The value of the operating assets of the assessed enterprise

$\sum C_i$ : The value of the non-operating assets and the excess assets of the evaluated enterprise

D: The value of the debt servicing of the assessed enterprise

In the above formula:

$$P = \sum_{t=1}^n FCFF_t (1+r)^{-t}$$

Where:  $FCFF_t$ : free cash flow created by operating assets in the  $t^{\text{th}}$  year in the future

$r$ : Discount Rate

$t$ : The estimated going-concern duration of the assessed enterprise

In this assessment, FCFF (free cash flow of firm) created by operating assets is defined as:

$$FCFF = NI + DEPR + INT - CAPEX - NWC$$

Where: *FCFF* = Expected free cash flow attributable to all investors (including shareholders and creditors)  
*NI* = After-tax net profit  
*DEPR* = Depreciation and amortization and other non-cash expenses  
*INT* = Interest expenses after income tax deduction  
*CAPEX* = Capital expenditure  
*NWC* = Increase in net working capital

About the revenue period: The revenue period is determined according to the charging period in the government approval.

About the discount rate: In this evaluation, the discount rate is determined using the weighted average cost of capital (WACC) model based on the net cash flow calculation (FCFF). The rate of return on interest-bearing debt capital is calculated based on the actual borrowing rate. The rate of return on the equity capital is determined according to the Capital Asset Pricing Model (CAPM).

## X. IMPLEMENTATION AND SITUATION OF THE EVALUATION PROCEDURES

### A. Starting and Ending Time of the Evaluation

The evaluation starts on November 12, 2017 and lasts to the date of issuance of the assessment report. The field survey deadline is November 25, 2017.

### B. Major Evaluation Procedures Implemented

1. From November 12, 2017 to November 13, 2017: The preliminary investigation of the project, including accepting the project entrustment on the basis of knowing about the purpose, object and scope of the assessment, and the base date of the assessment, etc., drawing up the assessment process and work plan.
2. From November 13, 2017 to November 25, 2017: On-site inspection of physical assets and related records, collection of relevant legal documents and other materials, and investigation and comparison of market prices, data collection and analysis on such basis, and determination of assessment method based on the results of the analysis to estimate and analyze the market value.
3. From November 25, 2017 to the date of issuing the appraisal report: preparing the assets appraisal report. After the Company's internal audit an assessment report is to be issued.

**XI. EVALUATION ASSUMPTIONS**

This evaluation is based on the following assessment assumptions, which will have a significant impact on the assessment results when there is a large change thereto.

1. It is assumed that there will be no major changes in the future economy, market, and social environment (such as national macroeconomic policies, market supply and demand, fiscal and taxation policies, domestic and foreign trade policies, environmental protection policies, financial and monetary policies, etc.)
2. It is assumed that the unit under assessment will be a going-concern after the assessment base date;
3. It is assumed that there is no significant change in the current taxes and tax rates of the assessed enterprises;
4. It is assumed that no force majeure will have a material adverse impact on the assessed entity after the assessment base date;
5. It is assumed that the management of the unit under assessment is responsible and due diligence after the assessment base date;
6. It is assumed that all the business activities of the unit being evaluated can and will be carried out in accordance with the relevant laws and regulations, industry standards, and the relevant provisions of safety in production and operation;
7. It is assumed that all the assets being assessed are obtained and used in accordance with the provisions of the national laws, regulations and regulatory documents;
8. It is assumed that all the assets and liabilities of the evaluated enterprise are as presented or specified to us and that there are no any other liabilities/assets, contingent liabilities/assets; or other related rights/contingent rights and obligations/contingent obligations, etc.;
9. It is assumed that the accounting policies adopted by the enterprise under assessment are consistent in important aspects;
10. It is assumed that the information provided by the entrusting party and the evaluated enterprise about this assessment is true, accurate and complete.
11. Unless otherwise stated in this report, the following conditions are assumed to be under normal conditions:
  - (1) All or part of assets that are invisible or inconvenient to observe (e.g. foundation and network of buildings buried underground, facilities and equipment placed near high-voltage electricity, assets not to be unpacked) and assets that are still operated off-site or temporarily suspended when we implement the on-site check are assumed to be normal.
  - (2) The internal structure, performance, quality, traits, functions, etc. of all physical assets are assumed to be normal.

- (3) All assets under assessment are assumed to be recorded, kept and deposited in compliance with laws, professional codes and other requirements. Therefore, the assets are in a safe, economical and reliable environment, and their possible presence or absence of risk factors is not listed in the appraiser's scope of investigation, its adverse impact on the appraisal value or beneficial effects not being considered.

Although the review process we have conducted includes the review of the assets being evaluated, this review is limited to observations of the visible portion of the assets being evaluated, as well as the spot checks and limited understanding of management, usage, maintenance records, etc. The appraisers do not have the ability to understand any specific knowledge of the internal structure, material character, safety and reliability of any physical assets nor are they qualified to test, check or express opinions on such contents.

## **XII. FORECAST AND SELECTION OF IMPORTANT PARAMETERS IN THE ASSESSMENT PROCESS**

### **A. Revenue Forecast**

The forecast of toll revenue is based on the "Traffic and Toll Revenue Forecast Report of Guangzhou-Shenzhen Expressway along the Pearl River" issued by Guangdong Communications Planning and Design Institute Co., Ltd. After analyzing and comparing the data of under high, medium and low scenarios in the "Forecast Report" and combining the results with the historical data of expressway operation, we think the medium scenario data in the "Forecast Report" are most appropriate. Therefore, we use this data as the basis of forecasting future toll revenue. For non-annual car traffic and toll revenue, the corresponding number of days has been converted.

Other income is mainly forecast based on historical data.

The estimated future operating revenue is as follows (Unit: RMB10,000):

Item/Year	November-December,					
	2017	2018	2019	2020	2021	2022
Total Revenue	6,857.60	44,195.75	49,455.09	64,570.39	71,364.64	79,493.35
Growth Rate	3.68%*	10.51%	11.90%	30.56%	10.52%	11.39%
Item/Year	2023	2024	2025	2026	2027	2028
Total Revenue	86,340.61	108,152.96	117,627.15	113,669.71	116,364.96	115,129.13
Growth Rate	8.61%	25.26%	8.76%	-3.36%	2.37%	-1.06%
Item/Year	2029	2030	2031	2032	2033	2034
Total Revenue	119,158.24	123,680.83	126,344.01	129,437.17	131,863.83	134,724.07
Growth Rate	3.50%	3.80%	2.15%	2.45%	1.87%	2.17%
Item/Year	2035	2036	2037	January-December 27, 2038		
Total Revenue	137,653.67	139,526.76	140,626.91	140,580.63		
Growth Rate	2.17%	1.36%	0.79%	-0.03%		

*Note:* The 3.68% growth rate of November to December 2017 in the above table is the growth rate for the year 2017.

## B. Forecast of Out-of-pocket Cost

Forecast of out-of-pocket cost is mainly based on historical data, combined with the situations of future operation, among which:

The cost of road maintenance is estimated according to the data in the “Conservation Planning Report on Guangzhou-Shenzhen Yanjiang Expressway (Shenzhen Section) in the Operation Period”;

Electromechanical maintenance costs are determined with reference to the ratio of 2016 electromechanical maintenance costs to toll income;

The cost of labor and other disbursements will be increased by 3% in the future on the basis of historical occurrences, of which labor costs corresponding to the second phase of the operation of the Expressway will be taken into consideration from 2020.

## C. Selection of Income Tax Rate

The income tax for each year is calculated according to the enterprise income tax rate of 25%. The intangible assets of Yanjiang Expressway are amortized using the traffic flow method and the taxation is amortized on a straight-line basis. Therefore, when we calculate the taxable income, we amortize the intangible assets on a straight-line basis and consider making up for losses and calculating the income tax.

**D. Forecast of Depreciation, Amortization, and Capital Expenditure****1. Depreciation and Amortization of the Stock Assets**

It is measured according to the original carrying amount of each asset of the company, purchase time, amortization or depreciation and residual value.

**2. The updated capital expenditures of stock assets and the corresponding depreciation and amortization.**

The future update of the capital expenditures of assets is calculated based on the original carrying amount and the economic durability of each asset of the company.

After the stock assets are updated, the measurement principle and method of their depreciation and amortization to be withdrawn is corresponding to the requirements for depreciation and amortization of the stock assets mentioned above.

**3. Capital expenditure of incremental assets, future expense update, and corresponding depreciation and amortization**

Capital expenditure of incremental assets (additional capital expenses): Pursuant to the Statement of Shenzhen Development and Reform Commission on the Investment and Financing Plan of Phase II of Guangzhou-Shenzhen Expressway along the Pearl River (SDRC [2015] No. 879), Meeting Minutes of the Second Phase of Shenzhen Section of Yanjiang Expressway (General Office of Shenzhen Municipal People's Government [2015] No. 274) and the capital expenditure plan of the second phase of project provided by the enterprise, the total capital expenditure of the second-phase project by the enterprise is RMB1 billion, with a planned expenditure of RMB300 million in 2018, RMB400 million in 2019 and RMB300 million in 2020.

The measurement principles and methods for the expected future updates of expenditures corresponding to incremental assets and the corresponding depreciation and amortization are the same with the previous ones.

**E. Measurement and Selection of Discount Rate**

The earnings caliber used in this assessment is FCFF, so the discount rate adopts the WACC (weighted average cost of capital) correspondingly. The formula is:

$$WACC = K_e \times \frac{E}{(E + D)} + K_d \times \frac{D}{(E + D)}$$

### 1. *Capital Structure of D to E*

The target capital structure ratio of 1.13 is used, with the specific measurement process shown in the following table:

Stock Code	Paper Titles	Interest-bearing Debt/ Equity Value Trade Date
		30 September 2017
000900.SZ	Modern Investment	0.88
600020.SH	Henan Zhongyuan Expressway	2.52
601107.SH	Sichuan Chengyu Expressway	1.29
600035.SH	Hubei Chutian Expressway	0.37
600548.SH	Shenzhen Expressway	0.58
Mean Value		1.13

Source: 10JQKA iFinD

### 2. *Equity Capital Cost Ke*

Equity capital costs are estimated using the Capital Asset Pricing Model (CAPM). The formula is:

$$\text{Equity Capital Cost } K_e = R_f + [R_m - R_f] \times \beta + R_c$$

Where:  $R_f$ : risk-free market return rate;  $R_m - R_f$ : market risk premium;  
 $\beta$ : risk coefficient;  $R_c$ : enterprise-specific risk adjustment coefficient;

#### (1) *Risk-free market return rate: $R_f$*

China's fixed-rate yield curve inquired on the China Bond Information Network shows that on the base date of evaluation, the medium and long-term bonds yield to maturity is 3.8917%, so this is estimated as the risk-free rate of return  $R_f$ .

#### (2) *Market risk premium: $R_m - R_f$*

According to Aswath Damodaran's statistics, the historical risk premium of the U.S. stock market is 6.40%, and that in China is 0.9% (based on the recent Moody's Investors Service's sovereign debt rating of China), and the integrated market risk premium is 7.3%.

#### (3) *$\beta$ value*

Risk coefficient  $\beta$ : By looking up the non-financial leverage risk coefficient  $\beta_u$  of listed companies in the same industry, the arithmetic average of the  $\beta_u$  values of these companies is taken as the  $\beta_u$  of the evaluated enterprise and then converted according to the capital structure of the evaluated enterprise into the financial-leverage risk factor as the beta value for this assessment.

$\beta_u$  and  $\beta$  conversion formula is:  $\beta = \beta_u \times [1 + D/E \times (1-T)]$ ; where T is the income tax rate.

Five comparable listed companies were selected this time through RoyalFlush's iFinD system query, whose  $\beta_u$  values are shown in the following table:

No.	Stock Abbreviation	$\beta_u$	No.	Stock Abbreviation	$\beta_u$
1	Modern Investment	0.6584	4	Chutian Expressway	0.6307
2	Zhongyuan Expressway	0.5417	5	Shenzhen Expressway	0.7608
3	Sichuan Chengyu	0.6985			
	Mean Value				0.6580

Source: 10JQKA iFinD

According to the capital structure of the evaluated enterprise,  $\beta = \beta_u \times [1 + D/E \times (1-T)] = 1.2156$

#### (4) *Enterprise-specific Risk Adjustment Coefficient*

Considering the specific risks of the assessed company in terms of operation scale and economic development in the region where it is located compared with the reference companies, the specific risk adjustment value of the project is determined as 0.3%.

### 3. *After-tax capital cost of debt: Kd*

After-tax capital cost of interest-bearing debt  $K_d = \text{interest rate of debt} \times (1 - \text{income tax rate } T)$

### 4. *Determination of WACC*

Substituting the above parameters into the WACC formula, the final WACC value is 8.08%.

## F. Sensitivity Analysis

### 1. *Sensitivity analysis of the income*

Assuming that the income will be increased respectively by 5%, 10%, -5% and -10% on the existing basis, the assessment results and the variations thereof will be as follows (Unit: RMB10,000):

Income	Assumption 1	Assumption 2	Assumption 3	Assumption 4
Growth rate	5%	10%	-5%	-10%
Assessment results	184,900.00	222,400.00	109,800.00	71,600.00
Assessment result variation	25.61%	51.09%	-25.41%	-51.36%



## 2. Sensitivity analysis of the cost of road maintenance

Assuming that the cost of road maintenance will be increased respectively by 5%, 10%, -5% and -10% on the existing basis, the assessment results and the variations thereof will be as follows (Unit: RMB10,000):

Cost of road maintenance	Assumption 1	Assumption 2	Assumption 3	Assumption 4
Growth rate	5%	10%	-5%	-10%
Assessment results	144,700.00	142,300.00	149,700.00	152,100.00
Assessment result variation	-1.70%	-3.33%	1.70%	3.33%

## 3. Sensitivity analysis of the discount rate

Assuming that the discount rate will be increased respectively by 5%, 10%, -5% and -10% on the existing basis, the assessment results and the variations thereof will be as follows (Unit: RMB10,000):

Discount rate	Assumption 1	Assumption 2	Assumption 3	Assumption 4
Growth rate	5%	10%	-5%	-10%
Assessment results	122,300.00	98,700.00	173,400.00	201,000.00
Assessment result variation	-16.92%	-32.95%	17.80%	36.55%

## 4. Comprehensive analysis

Based on the above analyses, we can see that the income is the most sensitive factor for the assess results, followed by the discount rate and the least sensitive factor is the cost of road maintenance.

## XIII. EVALUATION CONCLUSION

As at 31 October 2017, the carrying amount of the total assets of Yanjiang Expressway was RMB8,623,987,300, with a carrying amount of RMB7,151,987,300 and a carrying amount of net assets of RMB1,472,000,000. The appraisal value of the total shareholders' equity assessed by the income approach is: RMB1,472,000,000 (RMB One Billion Four Hundred Seventy-two Million).

## XIV. SPECIAL REMARKS

The results of the assessment contained in this report only reflect the market value determined by the appraisers according to relevant economic principles under the purposes of the appraisal, value definition, valuation assumptions and limitations. In the opinion of the Company, the following matters may affect the conclusion of the assessment, but in the current circumstances, the Company cannot estimate its impact on the assessment result. The attention of the users and readers of this report is hereby drawn to this report.

1. The assessment conclusion contained in this report has not considered the impact of liquidity on the assessment results.

2. In this assessment, the Report on the Forecast of Traffic Volume and Fee Revenue of the Shenzhen Section of Guangzhou-Shenzhen Yanjiang Expressway issued by Guangdong Provincial Traffic Planning and Design Institute Co., Ltd. as well as The Conservation Planning Report of Guangzhou-Shenzhen Yanjiang Expressway (Shenzhen Section) in the Operation Period provided by Yanjiang Expressway was quoted. The Company was aware of the calculation and acquisition process of the quoted data and undertakes the related responsibility of data quotation.
3. As of the base date of appraisal, the buildings involved in the appraisal scope and the land occupied do not go through the proof of property rights. The appraisal did not consider the impact on the appraisal result of these matters without a property right certificate.
4. As of the valuation date, the mortgage set on the franchise rights of the intangible assets involved in the assessment scope has not been lifted. The impact of the mortgage guarantee on the assessment results has not been considered in this assessment.
5. According to Request of Shenzhen Development and Reform Commission for Instruction on the project of Investment and Financing of the second Phase Project of the Shenzhen Section of Yanjiang Expressway (Shenzhen Fa Gai [2015] No. 879), the Minutes of the Meeting on Investment and Financing of Shenzhen Section of Yanjiang Expressway (Shenzhen Municipal People's Government General Office [2015] No. 274) and the Phase II Capital Expenditure Plan of Yanjiang Expressway provided by the enterprise, the assessment takes the amount of capital expenditure (the part borne by the enterprise) of Phase II project of Yanjiang Expressway at a consideration of RMB1 billion. Due to the fact that Phase II of Yanjiang Expressway is still under construction, if the final capital expenditures assumed by the enterprise do not match the estimates, it will have an impact on the assessment results.

## **XV. INSTRUCTIONS ON EVALUATION REPORT USAGE & RESTRICTIONS**

### **A. Instruction on the Usage of the Evaluation Report**

1. The right to use this report is owned by the Principal. The Principal or other users of the Assets Evaluation Report with agreement by the Principal should carefully read and understand each and every part of this report. Any usage of this report on its own or in any other combined use that does not cover all of the report may result in misunderstanding of the assessment conclusion contained in this report. Any usage on its own or combined usage of the values listed in this evaluation report (including the assessment schedule) that is outside of the scope of the appraisal will invalidate the evaluation. Users should also pay special attention to the definition of value, assessment assumptions, basis of assessment, special remarks, and the commitment letter of the evaluated enterprise in this report.
2. Except for the examination and use of this report by the competent authorities of property appraisal or other authorities authorized by laws and regulations, the whole or part of the contents of this report shall not be provided or disclosed to others without the express written permission or consent of the Principal. The Company also does not have the obligation to explain the assessment report to any other third parties except when the property assessment authority requires such by law and regulations or the department authorized by other laws and regulations reviews the use of this report.

**B. Instruction on Restrictions**

1. The assessment results of state-owned assets are subject to the record of the department having the right to record before use.
2. This report can only be used for the evaluation purpose stated in the evaluation report.
3. The evaluation report can only be used by the evaluation report users specified in the evaluation report.
4. Except as otherwise stipulated by law and regulations and the relevant parties, the contents of the evaluation report shall not be extracted, quoted or disclosed in the public media without the consent of the Company.
5. This report is not a proof of value of the object of assessment but is based on value advice under certain assessment criteria and assumptions.

**C. Validity Period of Using Evaluation Conclusion**

The assessment conclusion is only established on the valuation date set out in the assessment report. The validity period of using the asset evaluation results is for one year from the base date of evaluation, i.e. from October 31, 2017 to October 30, 2018.

**XVI. DATE OF EVALUATION REPORT**

This report is mainly based on the information obtained by the Company between the commencement date of this asset appraisal and the fieldwork deadline. The asset evaluation fieldwork deadline was November 25, 2017, and the reporting date of this assessment was December 11, 2017.

Shenzhen Pengxin Appraisal Limited

Shenzhen, China

Asset Appraiser: Wang Mingzhi

December 11, 2017

Asset Appraiser: Mao Yuan

*The following is the traffic study report prepared by GPCPDI for the purpose of incorporation in this circular. This traffic study report was prepared in Chinese only and set out below is an English translation of such report. In case of any discrepancies between the Chinese and the English versions of this report, the Chinese version shall prevail.*

## **FORECAST REPORT ON TRAFFIC FLOW AND TOLL REVENUE OF THE SHENZHEN SECTION OF GUANGSHEN COASTAL EXPRESSWAY**

### **I. PROJECT OVERVIEW AND BACKGROUND**

Guangshen Coastal Expressway (S3) is an important channel connecting Guangzhou and Shenzhen, and Guangdong and Hong Kong, and also an important component of the expressway network of Guangdong and Shenzhen. It starts from Huangpu District, Guangzhou, connects to the 107 National Highway, crosses Dongguan to Nanshan District, Shenzhen, and connects to Hong Kong through Hong Kong-Shenzhen Western Corridor. It has a total length of approximately 88 km, and is divided into Guangzhou, Dongguan and Shenzhen sections to set up projects. The Shenzhen section of Guangshen Coastal Expressway (the Project) extends from the Dongbao River in Changan Town, the boundary between Dongguan and Shenzhen, to Nanshan District, Shenzhen and connects with Hong Kong-Shenzhen Western Corridor.

Phase I of the Project is approximately 30.45 km long with four lanes in each direction and a designed speed of 100 km per hour. Phase I of the Project commenced construction in September 2007 and was open to traffic at the end of 2013, with an estimated investment amounting to RMB10 billion. The construction of Phase II of the Project, including the Airport Interchange, the connection line on Shenzhen side of Shenzhen-Zhongshan Channel and newly-added Shajing Interchange, is currently under preparation. The approved toll collection period of the Project is 25 years (2013-2038). One mainline toll station named Moon Bay (Qianhai) and four ramp toll stations named Fuyong, Xixiang South, Xixiang North and Dachan Bay have been set up for phase I of the Project.

In order to find out and make use of the future traffic flow per year of the Shenzhen section of Guangshen Coastal Expressway in a more comprehensive way to provide scientific bases for the strategic decisions of the Company, Guangdong Province Communications Planning & Design Institute Co., Ltd. (廣東省交通規劃設計研究院股份有限公司) was engaged by Shenzhen Expressway Company Limited to conduct forecast research on the traffic flow and toll revenue of the Project.

### **II. CONTENTS AND THOUGHTS OF THE RESEARCH**

#### **(I) Main Contents**

The main contents of this report are:

- ◎ The current social and economic situation and planning in affected regions;
- ◎ The current traffic and transportation situation and planning in affected regions;
- ◎ Traffic study and OD synthesis;
- ◎ The Traffic flow development forecast of the Project;
- ◎ Toll revenue forecast.

## (II) Forecasting Approach

“Four-stage” approach is adopted for the current traffic flow projection. Firstly, we conducted a analysis on the current social and economic situation in affected regions and a research on its development trend; secondly, we estimated the total traffic and transportation demand in affected region based on social and economic development trend and characteristics and their correlation with traffic and transportation, which means we estimated the occurrence quantity and concentration; we then conducted a research on the specific distribution of the total occurrence quantity and concentration among affected regions based on the characteristics of traffic. Finally, we distributed the traffic flow based on the current situation of the highway networks and the future highway network planning in regions which are affected by the Project, and on the basis of which, the toll revenue of the Project was estimated. For the overall thoughts of the Project’s traffic flow forecast, please refer to Chart 1.

## III. FORECAST PERIOD

Using 2017 as a base year, the traffic forecast covers a period from 2017 to 2038. Typical years are 2018, 2019, 2020, 2023, 2025, 2027, 2030, 2035 and 2038, after taking account of all effects of the relevant road networks.

## IV. BASIS OF PREPARATION

Main basis of the research:

1. The Entrusting Contract of Forecast and Assessment on Traffic Volume and Toll Revenue of Shenzhen section of Guangshen Coastal Expressway;
2. The “Twelfth Five-Year Plan” for the National Economic and Social Development of Guangdong Province, Shenzhen City and Dongguan City;
3. “Pearl River Delta Reform and Development Outline (2008-2020)”;
4. “Guangdong Province Expressway Network Plan” (2013-2030);
5. “Pearl River Delta Comprehensive Transportation Network Plan”;
6. “Pearl River Delta Intercity Rail Transportation Plan” (2008~2030);
7. “Trunk Highway Network Development Planning of Shenzhen”;
8. “Trunk Highway Network Planning of Dongguan” (2004~2030);
9. “Comprehensive City Master Plan of Shenzhen (2010-2020)”;
10. “Guidelines on Feasibility Study of Investment Projects” promulgated by the National Development and Reform Commission;
11. “Technical Standard of Highway Engineering” (JTG B01 – 2014) and the relevant standards, regulations, and requirements, etc.;
12. Other relevant information provided by the property owners;

- 13. Other relevant plannings and requirements.

V. CONCLUSIONS OF THE RESEARCH

(I) The Forecast Results of the Traffic Flow

The traffic flow forecast of the Shenzhen section of Guangshen Coastal Expressway has been prepared based on the analysis of economic development and traffic development of areas affected by the Project. For the forecast results of the typical years and the traffic flow by vehicle type of each year, please refer to Table 1 to Table 3 and Table 4 to Table 6, respectively.

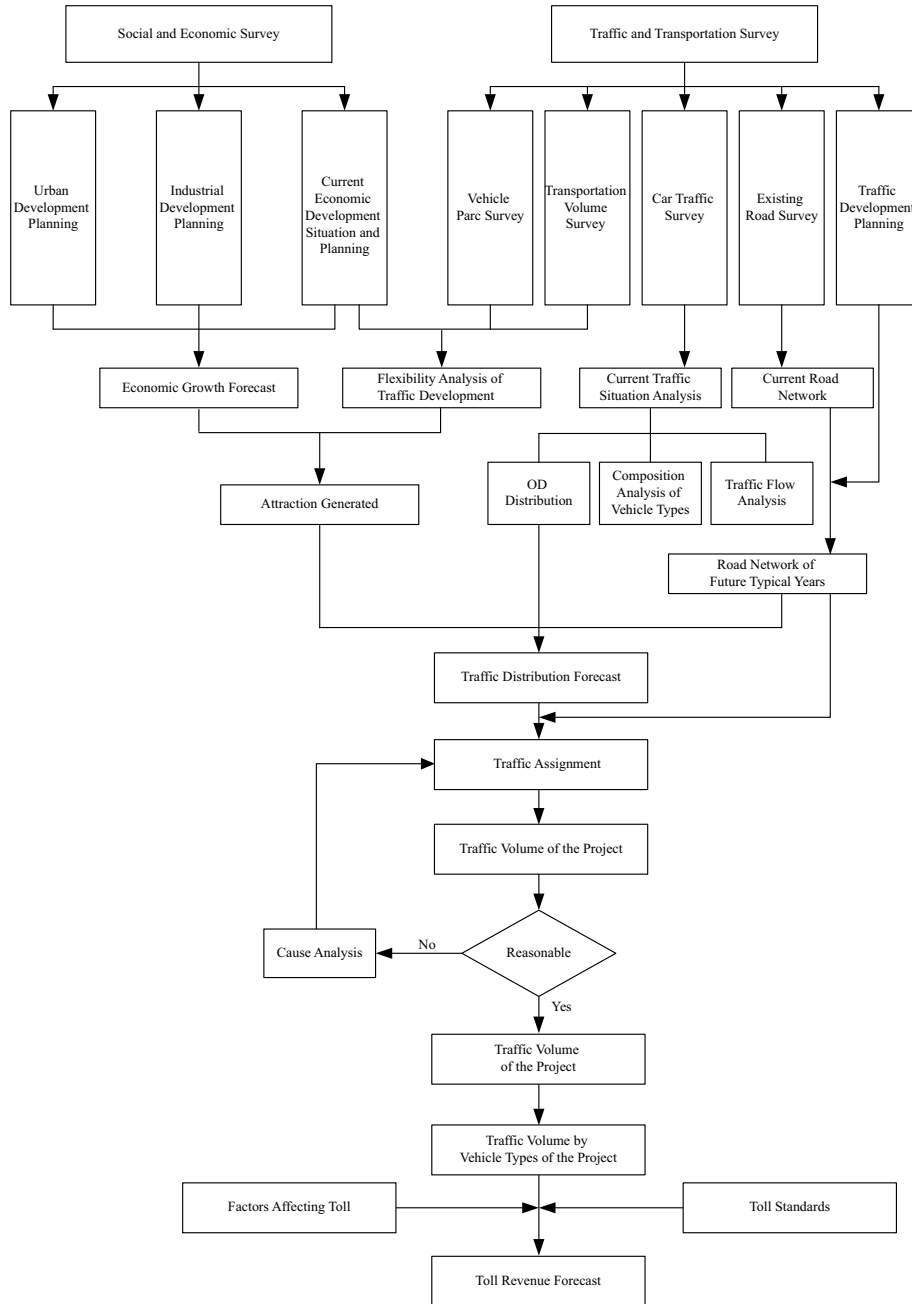


Chart 1 Mind map for the thoughts of the research

Forecast Result of Traffic Volume of the Shenzhen Section of Guangshen Coastal Expressway (Moderate Scenario)

Unit: pcud

Table 1

Section	Mileage	2018		2019		2020		2020		2023		2025		2027		2038	
		(without connection line)	(with connection line)	(without Ring and expansion of Jihe Expressway)	(with Outer Ring and the expansion of Jihe Expressway)	2020 (without Shenzhen-Zhongshan Channel and before the expansion of Jihe Expressway)	2023 (with Shenzhen-Zhongshan Channel and after the expansion of Jihe Expressway)	2025 (without Haibin Avenue)	2025 (with Haibin Avenue)	2027 (Guangshen on toll on toll-free basis)	2027 (Guangshen on toll on toll-free basis)	2030	2035	2038			
Origin ~ Qianhai Interchange	3.43	59105	66152	71592	74240	82006	84603	109311	118528	138103	109116	123860	117667	130830	143517	147911	
Qianhai Interchange ~ Xixiang South Interchange	3.27	59105	66152	71592	74240	82006	84603	109311	118528	138103	109116	123860	117667	130830	143517	147911	
Xixiang South Interchange ~ Daxian Bay Interchange	0.69	45663	51298	55336	57833	63857	66247	85565	93758	109411	92414	104926	99680	110866	121660	125414	
Daxian Bay Interchange ~ Xixiang North Interchange	2.22	41437	47068	51132	53602	59275	61832	80189	89688	105155	94440	107432	96744	107791	118485	122266	
Xixiang North Interchange ~ Airport Hub	3.93	54694	62465	68040	69979	75948	79165	103076	115961	136575	121993	139228	115253	128763	141905	146666	
Airport Hub ~ Fuyong Interchange	9.86	54694	62465	68040	76033	83215	88703	116381	132147	157099	143093	167368	153062	170451	187252	193152	
Fuyong Interchange ~ Shajing Interchange	4.90	69717	77191	84507	90730	99074	106154	138390	155347	184267	174621	203935	175519	195262	214304	220929	
Shajing Interchange ~ Tianyuan Hub	1.10	69717	80768	87054	93109	101782	109373	142952	159872	189544	183778	214714	181510	202010	221788	228688	
Tianyuan Hub ~ Destination	1.03	69717	80768	87054	93109	101782	113915	151975	169069	201066	194954	228354	188669	210519	231708	239285	
<b>Average of Phase I</b>	<b>30.45</b>	<b>57967</b>	<b>65556</b>	<b>71291</b>	<b>76373</b>	<b>83682</b>	<b>88582</b>	<b>115482</b>	<b>129117</b>	<b>152438</b>	<b>136500</b>	<b>158047</b>	<b>140923</b>	<b>156921</b>	<b>172379</b>	<b>177807</b>	
<b>Growth rate of Phase I</b>		<b>13.09%</b>	<b>8.75%</b>	<b>7.13%</b>	<b>7.13%</b>	<b>9.57%</b>	<b>5.86%</b>	<b>9.24%</b>	<b>11.81%</b>	<b>8.66%</b>	<b>-10.46%</b>	<b>7.60%</b>	<b>-10.83%</b>	<b>3.65%</b>	<b>1.90%</b>	<b>1.04%</b>	
Airport Hub ~ Airport Interchange	0.92			27030		31096		43276		83063		90751		88390		102321	
Airport Interchange ~ Hezhou Hub	6.00			26804		30812		30812		80393		85985		87043		100871	
<b>Average of Phase II</b>	<b>6.92</b>			<b>26834</b>		<b>30849</b>		<b>42305</b>		<b>63238</b>		<b>86618</b>		<b>87222</b>		<b>101064</b>	
<b>Growth rate of Phase II</b>				<b>14.96%</b>		<b>14.96%</b>		<b>11.10%</b>		<b>13.19%</b>		<b>8.25%</b>		<b>0.70%</b>		<b>5.03%</b>	
<b>Average of Phase I + Phase II</b>	<b>37.36</b>	<b>57967</b>	<b>65556</b>	<b>71291</b>	<b>67199</b>	<b>73899</b>	<b>77891</b>	<b>101931</b>	<b>116917</b>	<b>139212</b>	<b>124912</b>	<b>144820</b>	<b>130979</b>	<b>146577</b>	<b>163334</b>	<b>166749</b>	
<b>Growth rate of Phase I + Phase II</b>		<b>13.09%</b>	<b>8.75%</b>	<b>-5.74%</b>		<b>9.97%</b>	<b>5.40%</b>	<b>9.38%</b>	<b>14.70%</b>	<b>9.12%</b>	<b>-10.27%</b>	<b>7.67%</b>	<b>-9.56%</b>	<b>3.82%</b>	<b>2.19%</b>	<b>1.09%</b>	

Notes: 1. The Airport Interchange is the connection line interchange of Guangshen Coastal Expressway and the Shenzhen side of Shenzhen-Zhongshan Channel. The Shajing Interchange is the extension line interchange of Guangshen Coastal Expressway and Fengiang Avenue, and the Tianyuan Interchange is the interchange of Guangshen Coastal Expressway and Shenzhen Outer Ring Highway (the same applies hereinafter);

2. Growth rate in the table represents the growth rate of the amount in the column as compared with that in the previous column. For example, the growth rate of 2019 (without connection line) represents the average annual growth rate of the average traffic volume in that column as compared with the average traffic volume of 2019 (with connection line).

Forecast Result of Traffic Volume of the Shenzhen Section of Guangshen Coastal Expressway (Optimistic Scenario)

Unit: pcu/d

Table 2

Section	Mileage	2017	2018	2019 (without connection line)	2019 (with connection line)	2020 (without Outer Ring and the expansion of Jihe Expressway)	2020 (with Outer Ring and the expansion of Jihe Expressway)	2023		2025 (without Haibin Avenue)	2025 (with Haibin Avenue)	2027 (Guangshen on toll basis)	2027 (Guangshen on toll-free basis)	2030	2035	2038
								(without Shenzhen- Zhongshan Channel and after the expansion of Jihe Expressway)	(with Shenzhen- Zhongshan Channel and after the expansion of Jihe Expressway)							
Origin ~ Qianhai Interchange	3.43	59105	66549	72165	74982	82990	85787	111060	120662	140865	111517	126833	120727	134493	147822	152644
Qianhai Interchange ~ Xixiang South Interchange	3.27	59105	66549	72165	74982	82990	85787	111060	120662	140865	111517	126833	120727	134493	147822	152644
Xixiang South Interchange ~ Dachan Bay Interchange	0.69	45663	51606	55980	58411	64624	67174	86934	95446	111599	94447	107445	102272	113970	125310	129428
Dachan Bay Interchange ~ Xixiang North Interchange	2.22	41437	47350	51541	54138	59986	62698	81472	91303	107258	96518	110010	99259	110809	122039	126179
Xixiang North Interchange ~ Airport Hub	3.93	54694	62840	68584	70679	76859	80273	104725	118049	139306	124676	142570	118249	132369	146163	151359
Airport Hub ~ Fiyong Interchange	9.86	54694	62840	68584	76793	84214	89945	118243	134325	160241	146241	171385	157042	173224	192870	199333
Fiyong Interchange ~ Shajing Interchange	4.90	69717	77654	85183	91638	100263	107640	140604	158347	187953	178463	208829	180083	200729	220733	227998
Shajing Interchange ~ Tianyuan Hub	1.10	69717	81253	87751	94040	103003	110904	145239	162749	193335	187821	219867	186229	207667	228442	236006
Tianyuan Hub ~ Destination	1.03	69717	81253	87751	94040	103003	117538	154406	172113	205087	199243	234039	193574	216414	238659	246943
Average of Phase I	30.45	57967	65950	71861	77136	84686	89822	117330	131441	155487	139503	161840	144587	161314	177550	183496
Growth rate of Phase I			13.77%	8.96%	7.34%	9.79%	6.06%	9.31%	12.03%	8.76%	-10.28%	7.71%	-10.66%	3.72%	1.94%	1.10%
Airport Hub ~ Airport Interchange	0.92			27138	31282	31282	31345	43708	66944	86254	78769	92384	90158	104572	127645	133662
Airport Interchange ~ Hezhou Hub	6.00			26912	30996	30996	31058	42577	63545	81518	74542	87352	88784	103990	126321	132050
Average of Phase II	6.92			26942	31034	31034	31096	42728	63997	82148	75104	88178	88967	103287	126497	132247
Growth rate of Phase II				15.19%	0.20%	11.17%	0.20%	11.17%	49.78%	13.30%	-8.57%	8.35%	0.89%	5.10%	4.14%	1.49%
Average of Phase I + Phase II	37.36	57967	65950	71861	78842	74751	78947	103515	118952	141906	127578	148199	134287	150569	168096	174006
Growth rate of Phase I + Phase II			13.77%	8.96%	-5.59%	10.18%	5.61%	9.45%	14.91%	9.22%	-10.10%	7.78%	-9.39%	3.89%	2.23%	1.16%



Forecast Result of Traffic Volume of the Shenzhen Section of Guangshen Coastal Expressway (Basic Scenarios)

Unit: pcu/d

Table 3

Section	Mileage	2017	2018	2019 (without connection line)	2019 (with connection line)	2020 (without Outer Ring and the expansion of Jihe Expressway)	2020 (with Outer Ring and the expansion of Jihe Expressway)	2023		2025 (without Haibin Avenue)	2025 (with Haibin Avenue)	2027 (Guangshen on toll basis)	2027 (Guangshen on toll on toll-free basis)	2030	2035	2038
								(without Shenzhen- Zhongshan Channel and after the expansion of Jihe Expressway)	(with Shenzhen- Zhongshan Channel and after the expansion of Jihe Expressway)							
Origin ~ Qianhai Interchange	3.43	59105	64399	69587	72050	79464	81853	105594	114321	132993	104915	118906	112784	125204	137130	141107
Qianhai Interchange ~ Xixiang South Interchange	3.27	59105	64399	69587	72050	79464	81853	105594	114321	132993	104915	118906	112784	125204	137130	141107
Xixiang South Interchange ~ Dachan Bay Interchange	0.69	45663	49938	53981	56127	61878	64094	82656	90430	105362	88856	100729	95543	106099	116246	119645
Dachan Bay Interchange ~ Xixiang North Interchange	2.22	41437	45821	49700	52021	57438	59822	77462	86504	101264	90804	103135	92729	103156	113212	116642
Xixiang North Interchange ~ Airport Hub	3.93	54694	60810	66135	67915	73593	76592	99571	111845	131521	117296	133659	110470	123227	135591	139919
Airport Hub ~ Fiyong Interchange	9.86	54694	60810	66135	73790	80636	85821	112424	127456	151286	137584	160673	146710	163122	178920	184267
Fiyong Interchange ~ Shajing Interchange	4.90	69717	75146	82141	88054	96003	102704	133685	150025	177449	167898	195777	168235	186866	204768	210766
Shajing Interchange ~ Tianyuan Hub	1.10	69717	78628	84617	90362	98627	105819	138092	154196	182531	176702	206126	173977	193324	211918	218168
Tianyuan Hub ~ Destination	1.03	69717	78628	84617	90362	98627	112148	146808	163067	193627	187448	219412	180839	201467	221397	228278
<b>Average of Phase I</b>	<b>30.45</b>	<b>57967</b>	<b>63819</b>	<b>69295</b>	<b>74120</b>	<b>81088</b>	<b>85703</b>	<b>111556</b>	<b>124533</b>	<b>146798</b>	<b>131245</b>	<b>151725</b>	<b>135075</b>	<b>150173</b>	<b>164708</b>	<b>169628</b>
<b>Growth rate of Phase I</b>			<b>10.10%</b>	<b>8.58%</b>	<b>6.96%</b>	<b>9.40%</b>	<b>5.69%</b>	<b>9.19%</b>	<b>11.63%</b>	<b>8.57%</b>	<b>-10.60%</b>	<b>7.52%</b>	<b>-10.97%</b>	<b>3.60%</b>	<b>1.86%</b>	<b>0.99%</b>
Airport Hub ~ Airport Interchange	0.92			26354	30272	30272	30225	41999	64100	82299	74892	87329	85120	98382	119667	124869
Airport Interchange ~ Hezhou Hub	6.00			26134	29949	29995	29949	40912	60845	77780	70874	82932	83823	96987	118426	123344
<b>Average of Phase II</b>	<b>6.92</b>			<b>26164</b>	<b>30032</b>	<b>30032</b>	<b>29986</b>	<b>41057</b>	<b>61278</b>	<b>78381</b>	<b>71408</b>	<b>83543</b>	<b>83995</b>	<b>97173</b>	<b>118591</b>	<b>123546</b>
<b>Growth rate of Phase II</b>				<b>14.78%</b>	<b>14.78%</b>	<b>14.78%</b>	<b>-0.15%</b>	<b>11.04%</b>	<b>49.25%</b>	<b>13.10%</b>	<b>-8.90%</b>	<b>8.16%</b>	<b>0.54%</b>	<b>4.98%</b>	<b>4.06%</b>	<b>1.37%</b>
<b>Average of Phase I + Phase II</b>	<b>37.36</b>	<b>57967</b>	<b>63819</b>	<b>69295</b>	<b>74120</b>	<b>81634</b>	<b>75385</b>	<b>98501</b>	<b>112819</b>	<b>134129</b>	<b>120164</b>	<b>139099</b>	<b>125616</b>	<b>140358</b>	<b>156168</b>	<b>161094</b>
<b>Growth rate of Phase I + Phase II</b>			<b>10.10%</b>	<b>8.58%</b>	<b>-5.85%</b>	<b>9.80%</b>	<b>5.24%</b>	<b>9.32%</b>	<b>14.54%</b>	<b>9.04%</b>	<b>-10.41%</b>	<b>7.59%</b>	<b>-9.69%</b>	<b>3.77%</b>	<b>2.16%</b>	<b>1.04%</b>
<b>Phase II</b>																

**Forecast Result of Traffic Volume by Vehicle Type of Phase I + Phase II of  
Shenzhen Section of Guangshen Coastal Expressway (Moderate Scenario)**

*Unit: vehicles/day, pcu/d*

Table 4

Year	Vehicle Category 1	Vehicle Category 2	Vehicle Category 3	Vehicle Category 4	Vehicle Category 5	Toll-free Vehicle	Total	Total
							Absolute Number	Converted Number
2017	40921	398	3107	426	2247	1934	49033	57967
2018	42148	418	3625	677	3575	1560	52003	65556
2019 (without connection line)	45849	450	3901	729	3906	1696	56530	71291
2019 (with connection line)	43218	424	3677	687	3682	1599	53286	67199
2020 (without Outer Ring)	47576	461	4003	748	4057	1758	58604	73899
2020 (with Outer Ring)	50146	486	4220	789	4276	1853	61770	77891
2021	54867	513	4449	831	4523	1959	67143	84184
2022	61152	570	4945	924	5042	2183	74817	93803
2023 (without Shenzhen- Zhongshan Channel)	65690	630	5467	1022	5608	2425	80842	101931
2023 (with Shenzhen- Zhongshan Channel)	75348	723	6271	1172	6432	2782	92727	116917
2024	82253	785	6809	1272	7025	3035	101179	127569
2025 (without Haibin Avenue)	89805	852	7393	1381	7675	3313	110419	139212
2025 (with Haibin Avenue)	78378	739	6857	1318	7322	2926	97540	124912
2026	84435	793	7347	1412	7892	3151	105030	134497
2027 (Guangshen on toll basis)	90962	850	7871	1513	8507	3393	113095	144820
2027 (Guangshen on toll- free basis)	82118	768	7143	1373	7720	3066	102188	130979
2028	85284	795	7392	1421	8020	3183	106094	135982
2029	88574	822	7649	1470	8332	3305	110152	141179
2030	91992	851	7915	1521	8657	3431	114367	146577
2031	94015	868	8071	1551	8849	3506	116859	149769
2032	96087	885	8230	1582	9046	3582	119413	153038
2033	98210	903	8394	1613	9248	3661	122028	156388
2034	100385	921	8561	1645	9454	3741	124707	159819
2035	102614	939	8731	1678	9666	3824	127452	163334
2036	103769	946	8798	1691	9779	3865	128848	165119
2037	104938	954	8864	1704	9892	3908	130260	166924
2038	106121	961	8931	1717	10007	3951	131687	168749

*Note:* As not all the period between the opening to traffic and the end of toll collection period for the roads related to the Project are on complete year basis, for the accuracy of the toll revenue calculation in below, the forecast has been conducted on vehicle type basis according to different periods between the opening to traffic and the end of toll collection period for related roads (the same applies below).

**Forecast Result of Traffic Volume by Vehicle Type of Phase I + Phase II of  
Shenzhen Section of Guangshen Coastal Expressway (Optimistic Scenario)**

*Unit: vehicles/day, pcu/d*

Table 5

<b>Year</b>	<b>Vehicle Category 1</b>	<b>Vehicle Category 2</b>	<b>Vehicle Category 3</b>	<b>Vehicle Category 4</b>	<b>Vehicle Category 5</b>	<b>Toll-free Vehicle</b>	<b>Total Absolute Number</b>	<b>Total Converted Number</b>
2017	40921	398	3107	426	2247	1934	49033	57967
2018	42401	420	3646	681	3596	1569	52315	65950
2019 (without connection line)	46216	453	3932	735	3937	1709	56983	71861
2019 (with connection line)	43631	428	3712	694	3717	1614	53795	67842
2020 (without Outer Ring)	48124	467	4050	757	4104	1778	59280	74751
2020 (with Outer Ring)	50826	493	4277	799	4334	1878	62607	78947
2021	55648	520	4508	842	4582	1985	68084	85349
2022	62110	578	5017	938	5116	2215	75973	95236
2023 (without Shenzhen- Zhongshan Channel)	66711	640	5552	1038	5695	2463	82098	103515
2023 (with Shenzhen- Zhongshan Channel)	76659	735	6380	1192	6544	2830	94341	118952
2024	83765	799	6934	1296	7155	3091	103039	129913
2025 (without Haibin Avenue)	91543	869	7536	1408	7823	3377	112556	141906
2025 (with Haibin Avenue)	80050	755	7004	1346	7478	2989	99622	127578
2026	86322	810	7511	1444	8068	3221	107376	137502
2027 (Guangshen on toll basis)	93084	869	8055	1548	8705	3472	115734	148199
2027 (Guangshen on toll- free basis)	84193	787	7324	1408	7915	3143	104769	134287
2028	87494	815	7583	1457	8228	3265	108844	139506
2029	90928	844	7852	1509	8554	3392	113079	144930
2030	94497	874	8130	1563	8893	3524	117482	150569
2031	96611	892	8294	1594	9094	3603	120087	153906
2032	98777	910	8461	1626	9299	3683	122757	157324
2033	100998	928	8632	1659	9510	3765	125492	160827
2034	103273	947	8807	1693	9726	3849	128295	164417
2035	105606	967	8986	1727	9948	3935	131169	168096
2036	106864	975	9060	1741	10070	3981	132691	170043
2037	108137	983	9134	1756	10194	4027	134231	172013
2038	109426	991	9209	1770	10319	4074	135789	174006

**Forecast Result of Traffic Volume by Vehicle Type of Phase I + Phase II of  
Shenzhen Section of Guangshen Coastal Expressway (Basic Scenario)**

*Unit: vehicles/day, pcu/d*

Table 6

Year	Vehicle Category 1	Vehicle Category 2	Vehicle Category 3	Vehicle Category 4	Vehicle Category 5	Toll-free Vehicle	Total Absolute Number	Total Converted Number
2017	40921	398	3107	426	2247	1934	49033	57967
2018	41031	407	3529	659	3480	1519	50625	63819
2019 (without connection line)	44566	437	3792	709	3796	1648	54947	69295
2019 (with connection line)	41957	411	3570	667	3574	1552	51732	65239
2020 (without Outer Ring)	46117	447	3881	725	3933	1704	56807	71634
2020 (with Outer Ring)	48533	471	4084	763	4139	1793	59783	75385
2021	53075	497	4308	805	4379	1897	64960	81458
2022	59089	551	4782	894	4876	2111	72303	90664
2023 (without Shenzhen- Zhongshan Channel)	63479	609	5283	987	5419	2344	78121	98501
2023 (with Shenzhen- Zhongshan Channel)	72707	697	6051	1131	6207	2684	89477	112819
2024	79310	757	6565	1227	6774	2927	97559	123004
2025 (without Haibin Avenue)	86526	821	7123	1331	7394	3192	106387	134129
2025 (with Haibin Avenue)	75399	711	6597	1268	7044	2815	93833	120164
2026	81163	762	7062	1357	7586	3029	100959	129285
2027 (Guangshen on toll basis)	87369	816	7560	1453	8171	3259	108628	139099
2027 (Guangshen on toll- free basis)	78756	737	6851	1317	7404	2940	98004	125616
2028	81750	762	7085	1362	7688	3051	101698	130347
2029	84860	788	7328	1408	7983	3166	105533	135259
2030	88089	815	7579	1457	8290	3285	109515	140358
2031	89999	831	7726	1485	8471	3356	111868	143372
2032	91955	847	7876	1514	8657	3428	114277	146457
2033	93958	864	8030	1543	8847	3502	116745	149617
2034	96010	881	8188	1574	9042	3578	119272	152853
2035	98112	898	8348	1605	9242	3656	121861	156168
2036	99165	904	8407	1616	9345	3694	123131	157793
2037	100230	911	8466	1627	9448	3732	124416	159435
2038	101307	917	8526	1639	9553	3771	125713	161094

**(II) The Calculation Results of Toll Revenue**

The forecast results of toll revenue are shown in Table 7 ~ Table 9, which were calculated based on the traffic flow forecast results and the toll standards.

**Toll Revenue of the Shenzhen Section of Guangshen Coastal Expressway by Vehicle Type  
(Moderate Scenario)**

*Unit: RMB10 thousand/year*

Table 7

Year	Vehicle Category 1	Vehicle Category 2	Vehicle Category 3	Vehicle Category 4	Vehicle Category 5	Sub-total	Growth of	Total Toll Revenue
							Weight- Related Toll Revenue	
2017	27281	417	4311	897	5480	38386	2687	41073
2018	27292	425	4885	1387	8468	42457	2972	45429
2019	30566	471	5412	1536	9524	47510	3326	50836
2020	39952	609	7001	1985	12465	62012	4341	66353
2021	44708	657	7554	2142	13491	68552	4799	73351
2022	49830	730	8396	2381	15041	76377	5346	81724
2023	53520	807	9282	2632	16727	82969	5808	88776
2024	67109	1007	11578	3283	20989	103965	7278	111243
2025	73043	1090	12536	3554	22863	113085	7916	121001
2026	68666	1013	12457	3632	23507	109276	7649	116925
2027	70258	1033	12721	3709	24150	111870	7831	119701
2028	69501	1018	12560	3662	23940	110681	7748	118429
2029	71967	1051	12960	3778	24803	114559	8019	122578
2030	74739	1087	13410	3909	25767	118913	8324	127237
2031	76372	1109	13674	3986	26336	121476	8503	129980
2032	78271	1134	13981	4076	26993	124454	8712	133166
2033	79758	1153	14218	4145	27516	126790	8875	135665
2034	81513	1176	14499	4226	28128	129543	9068	138611
2035	83311	1199	14787	4310	28755	132363	9265	141629
2036	84492	1212	14940	4355	29169	134166	9392	143558
2037	85194	1218	15011	4375	29427	135225	9466	144691
2038	86152	1227	15125	4408	29768	136680	9568	146248
<b>Total</b>	<b>1423495</b>	<b>20842</b>	<b>251298</b>	<b>72369</b>	<b>473308</b>	<b>2241313</b>	<b>156892</b>	<b>2398205</b>

**Toll Revenue of the Shenzhen Section of Guangshen Coastal Expressway by Vehicle Type  
(Optimistic Scenario)**

*Unit: RMB10 thousand/year*

Table 8

Year	Vehicle Category 1	Vehicle Category 2	Vehicle Category 3	Vehicle Category 4	Vehicle Category 5	Sub-total	Growth of	Total Toll Revenue
							Weight- Related Toll Revenue	
2017	27281	417	4311	897	5480	38386	2687	41073
2018	27402	427	4904	1392	8502	42627	2984	45611
2019	30811	475	5456	1549	9601	47890	3352	51242
2020	40456	616	7089	2010	12622	62794	4396	67190
2021	45345	665	7653	2170	13669	69502	4865	74368
2022	50611	741	8518	2416	15260	77546	5428	82974
2023	54352	820	9427	2673	16988	84260	5898	90158
2024	68344	1025	11791	3343	21376	105879	7412	113290
2025	74459	1111	12779	3623	23306	115277	8069	123347
2026	70203	1036	12735	3713	24033	111720	7820	119541
2027	71966	1059	13029	3799	24736	114589	8021	122610
2028	71305	1045	12886	3757	24561	113553	7949	121502
2029	73883	1079	13305	3879	25462	117608	8233	125840
2030	76777	1117	13776	4016	26469	122155	8551	130706
2031	78484	1139	14052	4096	27064	124836	8739	133574
2032	80466	1166	14373	4190	27750	127944	8956	136900
2033	82025	1186	14622	4262	28298	130394	9128	139522
2034	83862	1210	14917	4348	28939	133275	9329	142605
2035	85744	1234	15219	4436	29595	136228	9536	145764
2036	87015	1248	15386	4485	30040	138173	9672	147845
2037	87795	1255	15470	4509	30325	139353	9755	149108
2038	88839	1265	15596	4546	30697	140943	9866	150809
<b>Total</b>	<b>1457422</b>	<b>21334</b>	<b>257294</b>	<b>74110</b>	<b>484772</b>	<b>2294932</b>	<b>160645</b>	<b>2455577</b>

**Toll Revenue of the Shenzhen Section of Guangshen Coastal Expressway by Vehicle Type  
(Basic Scenario)**

Unit: RMB10 thousand/year

Table 9

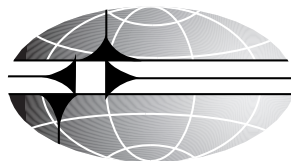
Year	Vehicle Category 1	Vehicle Category 2	Vehicle Category 3	Vehicle Category 4	Vehicle Category 5	Sub-total	Growth of	Total Toll Revenue
							Weight- Related Toll Revenue	
2017	27281	417	4311	897	5480	38386	2687	41073
2018	26610	414	4763	1352	8256	41396	2898	44293
2019	29710	458	5261	1493	9258	46180	3233	49412
2020	38695	590	6781	1923	12073	60061	4204	64266
2021	43247	636	7313	2074	13062	66332	4643	70975
2022	48147	706	8119	2303	14546	73820	5167	78988
2023	51717	780	8970	2544	16164	80175	5612	85787
2024	64706	971	11164	3165	20238	100243	7017	107260
2025	70374	1050	12078	3424	22027	108954	7627	116580
2026	66004	974	11974	3491	22596	105039	7353	112391
2027	67431	992	12209	3560	23179	107371	7516	114887
2028	66619	976	12039	3510	22947	106092	7426	113518
2029	68948	1007	12417	3620	23762	109753	7683	117435
2030	71566	1041	12841	3743	24673	113865	7971	121835
2031	73108	1061	13089	3816	25210	116285	8140	124424
2032	74903	1085	13380	3900	25831	119099	8337	127436
2033	76303	1103	13602	3965	26324	121297	8491	129788
2034	77958	1125	13867	4042	26902	123894	8673	132567
2035	79654	1147	14138	4121	27493	126553	8859	135412
2036	80741	1158	14276	4161	27874	128210	8975	137185
2037	81370	1163	14338	4179	28106	129155	9041	138196
2038	82241	1171	14438	4208	28417	130476	9133	139610
<b>Total</b>	<b>1367332</b>	<b>20024</b>	<b>241368</b>	<b>69491</b>	<b>454418</b>	<b>2152633</b>	<b>150684</b>	<b>2303318</b>

Guangdong Province Communications Planning & Design Institute Co., Ltd.  
(廣東省交通規劃設計研究院股份有限公司)

November 2017

*Set out below is the text of the letter from the Company relating to discounted future estimated cash flows for the purpose of inclusion in this circular.*

**(I) LETTER FROM THE BOARD**



**深圳高速公路股份有限公司**

**SHENZHEN EXPRESSWAY COMPANY LIMITED**

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

**(Stock Code: 00548)**

11 December 2017

Listing Division  
The Stock Exchange of Hong Kong Limited  
11th Floor, One International Finance Centre  
1 Harbour View Street  
Central, Hong Kong

Dear Sirs,

**Re: Rule 14.62 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited**

Reference is made to the joint announcement (the “**Announcement**”) of Shenzhen International Holdings Limited and Shenzhen Expressway Company Limited (the “**Company**”) dated 11 December 2017, which mentioned the valuation (the “**Valuation**”) carried out by 深圳市鵬信資產評估土地房地產估價有限公司 (Shenzhen Pengxin Appraisal Limited, “**Pengxin Appraisal**”) on the market value of the entire shareholder’s interest of 深圳市廣深沿江高速公路投資有限公司 (Shenzhen Guangshen Coastal Expressway Investment Company Limited).

We have reviewed the Valuation for which Pengxin Appraisal are responsible, and discuss with Pengxin Appraisal on relevant matters (including the part of bases and assumptions upon which the Valuation has been prepared). We have also considered the letter from our auditor, Ernst & Young Hua Ming LLP dated 11 December 2017 addressed to us regarding whether the discounted future estimated cash flows on which the Valuation is based, so far as the calculations are concerned, has been properly compiled.

On the basis of the foregoing, we are of the opinion that the Valuation mentioned in the Announcement has been stated after due and careful enquiry.

Yours faithfully,  
By Order of the Board  
**Shenzhen Expressway Company Limited**  
**WU Ya De**  
*Executive Director and President*



*Set out below is the text of the letter from Ernst & Young relating to discounted future estimated cash flows for the purpose of inclusion in this circular.*

## (II) LETTER FROM ERNST & YOUNG



**Building a better  
working world**

Ernst & Young Hua Ming LLP  
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### REPORT FROM REPORTING ACCOUNTANTS ON THE DISCOUNTED CASH FLOW FORECAST IN CONNECTION WITH THE VALUATION OF 100% OF THE FAIR VALUE OF SHENZHEN GUANGSHEN COASTAL EXPRESSWAY INVESTMENT COMPANY LIMITED

#### TO THE DIRECTORS OF SHENZHEN EXPRESSWAY COMPANY LIMITED

We have been engaged to report on the arithmetical accuracy of the calculations of the discounted cash flow forecast (the “**Forecast**”) on which the valuation dated 11 December 2017 prepared by Shenzhen PengXin Appraisal Limited in respect of 100% of the fair value of Shenzhen Guangshen Coastal Expressway Investment Company Limited (the “**Target**”) as at 11 December 2017 is based. The valuation is set out in the announcement of Shenzhen Expressway Company Limited (the “**Company**”) dated 11 December 2017 (the “**Announcement**”) in connection with the acquisition of the Target. The valuation based on the Forecast is regarded by The Stock Exchange of Hong Kong Limited as a profit forecast under paragraph 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

#### **Directors’ responsibilities**

The directors of the Company (the “**Directors**”) are responsible for the Forecast. The Forecast has been prepared using a set of bases and assumptions (the “**Assumptions**”), the completeness, reasonableness and validity of which are the responsibility of the Directors. The Assumptions are set out on page 6 of the Announcement.

#### **Reporting Accountants’ responsibilities**

Our responsibility is to express an opinion on the arithmetical accuracy of the calculations of the Forecast based on our work. The Forecast does not involve the adoption of accounting policies.

We conducted our engagement in accordance with China Standard on Other Assurance Engagements No. 3101-Assurance Engagements Other Than Audits or Reviews of Historical Financial Information issued by the Chinese Institute of Certified Public Accountants. This standard requires that we comply with ethical requirements and plan and perform our work to obtain reasonable assurance as to whether, so far as the arithmetical accuracy of the calculations are concerned, the Directors have properly compiled the Forecast in accordance with the Assumptions adopted by the Directors. Our work consisted primarily of checking the arithmetical accuracy of the calculations of the Forecast prepared based on the Assumptions made by the

Directors. Our work is substantially less in scope than an audit conducted in accordance with China Standards on Auditing issued by the Chinese Institute of Certified Public Accountants. Accordingly, we do not express an audit opinion.

We are not reporting on the appropriateness and validity of the Assumptions on which the Forecast are based and thus express no opinion whatsoever thereon. Our work does not constitute any valuation of the Target. The Assumptions used in the preparation of the Forecast include hypothetical assumptions about future events and management actions that may or may not occur. Even if the events and actions anticipated do occur, actual results are still likely to be different from the Forecast and the variation may be material. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

**Opinion**

Based on the foregoing, in our opinion, so far as the arithmetical accuracy of the calculations of the Forecast is concerned, the Forecast has been properly compiled in all material respects in accordance with the Assumptions adopted by the Directors.

Ernst & Young Hua Ming LLP

Certified Public Accountant: Xie Feng

Beijing, the People's Republic of China

Certified Public Accountant: Deng Dong Mei

11 December 2017

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests and short positions of the Directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be (i) notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and the chief executives were taken or deemed to have under such provisions of the SFO); or (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

### Long positions in ordinary shares of SZ International

Name	Number of ordinary shares held as at the Latest Practicable Date	Approximately percentage of issued share capital of SZ International	Nature of Interest	Capacity
Hu Wei	120,716	0.006%	Personal	Beneficial Owner

### Interests in share options of SZ International

Name	Share Option unexercised as at the Latest Practicable Date	Nature of Interest	Capacity
	share option scheme 1 <sup>(note 1)</sup>	share option scheme 2 <sup>(note 2)</sup>	
Hu Wei	441,910	950,000	Personal Beneficial Owner
Wu Ya De	–	760,000	Personal Beneficial Owner
Liao Xiang Wen <sup>(note 3)</sup>	133,221	380,000	Personal Interest of the spouse
Gong Tao Tao	–	510,000	Personal Beneficial Owner
Liu Ji	140,298	510,000	Personal Beneficial Owner
Chen Yan	139,933	510,000	Personal Beneficial Owner
Fan Zhi Yong	349,831	570,000	Personal Beneficial Owner
Wang Zeng Jin	139,942	–	Personal Beneficial Owner

*Notes:*

1. The share option scheme 1 was granted on 29 January 2014 and could be exercised during the period from 29 January 2016 to 28 January 2019 pursuant to the grant provision. The exercise price is HK\$8.919 per share.
2. The share option scheme 2 was granted on 26 May 2017 and could be exercised during the period from 26 May 2019 to 25 May 2022 pursuant to the grant provision. The exercise price is HK\$12.628 per share.
3. The interest is owned by the Director Liao Xiang Wen' spouse.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, supervisors and chief executives of the Company was interested in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors, supervisors or the chief executives were taken or deemed to have under such provisions of the SFO) or which are required to be entered into the register maintained by the Company under section 352 of the SFO or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Mr. Hu Wei is an executive director of SZ International. Mr. Liu Ji, Ms. Chen Yan and Mr. Fan Zhi Yong hold management positions in Shenzhen International group. Save for the aforesaid Directors, no Director of the Company is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

**3. COMPETING INTEREST**

As at the Latest Practicable Date, none of the Directors and their respective close associates were interested in any business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

**4. INTERESTS IN ASSETS, CONTRACT OR ARRANGEMENT**

As at the Latest Practicable Date, none of the Directors or supervisors of the Company is materially interested in any contracts or arrangement entered into by any members of the Group which is subsisting at the date of this circular and which is significant in relation to the business of the Group.

None of the Directors or supervisors of the Company has any direct or indirect interest in any assets which have been, since 31 December 2016, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any members of the Group, or are proposed to be acquired or disposed of by, or leased to any members of the Group.

**5. MATERIAL ADVERSE CHANGE**

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2016, the date to which the latest published audited consolidated accounts of the Group have been made up.

**6. LITIGATION**

As at the Latest Practicable Date, no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group.

**7. SERVICE CONTRACTS**

No service contracts that cannot be terminated by the Group within one year without compensation (other than general statutory compensation) have been or proposed to be entered into between the Group and the Directors as at the Latest Practicable Date.

**8. EXPERTS**

- (i) The following are the qualifications of the experts who have given opinion or advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Ernst & Young	Certified Public Accountants, the PRC
TC Capital	a licensed corporation permitted to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Pengxin Appraisal	an independent qualified valuer in the PRC engaged in valuation
GPCPDI	an independent traffic consultant in the PRC

- (ii) As at the Latest Practicable Date, each of Ernst & Young, TC Capital, Pengxin Appraisal and GPCPDI had no shareholding interest in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (iii) Each of Ernst & Young, TC Capital, Pengxin Appraisal and GPCPDI has given and has not withdrawn its written consent to the issue of this circular, with inclusion of its letter or report and references to its name in the form and context in which it is included.
- (iv) As at the Latest Practicable Date, each of Ernst & Young, TC Capital, Pengxin Appraisal and GPCPDI was not interested, directly or indirectly, in any assets which had since 31 December 2016 (being the date to which the latest published audited accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Group or which are proposed to be acquired or disposed of by or leased to any member of the Group.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

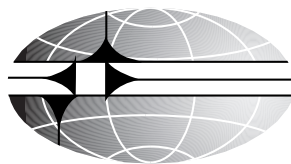
Copies of the following documents are available for inspection during normal business hours at the principal place of business of the Company in Hong Kong at Room 1603, 16/F, China Building, 29 Queen's Road Central, Central, Hong Kong, within 14 days from the date of this circular (excluding Saturdays, Sundays and public holidays):

- (i) the Acquisition Agreement;
- (ii) the Entrusted Construction Agreement;
- (iii) the Entrusted Operation Agreement;
- (iv) the Entrusted Operation and Management Agreement;
- (v) the Supplemental Entrusted Construction Agreement;
- (vi) letter from the Independent Board Committee;
- (vii) letter from TC Capital; and
- (viii) this circular.

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## REVISED NOTICE OF THE EGM

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### 深圳高速公路股份有限公司 SHENZHEN EXPRESSWAY COMPANY LIMITED

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

**(Stock Code: 00548)**

## REVISED NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING 2018

Reference is hereby made to the notice (the “**Original EGM Notice**”) of the First Extraordinary General Meeting 2018 (the “**EGM**”) of Shenzhen Expressway Company Limited (the “**Company**”) dated 22 December 2017 and the announcement in relation to the candidate of the independent non-executive Director dated 18 January 2018.

After the despatch of the Original EGM Notice, Xin Tong Chan Development (Shenzhen) Company Limited, a shareholder holding approximately 30.03% of the issued share capital of the Company, requested in writing for the inclusion of the following resolution (the “**New Resolution**”) to be considered at the EGM pursuant to the applicable PRC laws and regulations: To consider and approve the resolution in relation to the appointment of the Independent Director of the eighth session of the board of directors of the Company: Mr. Bai Hua be appointed as an Independent Director of the eighth session of the board of directors of the Company with immediate effect until 31 December 2020 (such candidacy shall be eligible only if the Shanghai Stock Exchange has no objection).

Accordingly, the Company hereby revises the Original EGM Notice as follows to incorporate the New Resolution:

**Revised Notice is hereby given** that the EGM of the Company will be held at the conference room of the Company at Podium Levels 2-4, Jiangsu Building, Yitian Road, Futian District, Shenzhen, the PRC at 2 p.m. on Thursday, 8 February 2018 to consider and, if thought fit, pass the following resolutions by way of **ordinary resolution**:

1. To consider and approve the resolution in relation to the acquisition of 100% interests in Guangshen Coastal Expressway (Shenzhen Section): The equity acquisition agreement (the “**Acquisition Agreement**”, a copy of which has been tabled at the meeting marked “A” and initialed by the chairman of the meeting for the purpose of identification) dated 11 December 2017 among 深圳市投資控股有限公司 (Shenzhen Investment Holdings Company Limited), 深圳市廣深沿江高速公路投資有限公司 (Shenzhen Guangshen Coastal Expressway Investment Company Limited) and the Company and the transaction contemplated under the Acquisition Agreement be and are hereby approved, confirmed and ratified;

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## REVISED NOTICE OF THE EGM

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2. **To consider and approve the resolution in relation to the appointment of the Independent Director of the eighth session of the board of directors of the Company: Mr. Bai Hua be appointed as an Independent Director of the eighth session of the board of directors of the Company, with immediate effect and until 31 December 2020 (such candidacy shall be eligible only if the Shanghai Stock Exchange has no objection).**

By Order of the Board  
**Hu Wei**  
*Chairman*

Shenzhen, the PRC, 23 January 2018

*Notes:*

**1. Eligibility for attending the EGM**

Shareholders of the Company whose names appear on the registers of shareholders of the Company at the close of business on 8 January 2018 shall have the right to attend the EGM after complying with the necessary registration procedures.

**2. Registration procedures for attending the EGM**

- i. Shareholders intending to attend the EGM should deliver to the Company, on or before 19 January 2018, either in person, by post or by fax, the reply slip (together with any required registration documents) for attending the EGM.
- ii. Holders of H shares of the Company please note that the register of holders of H shares of the Company will be closed from 9 January 2018 to 8 February 2018 (both days inclusive), during which period no transfer of H shares of the Company will be registered. Holders of H shares of the Company who intend to attend the EGM must deliver their instruments of transfer together with the relevant share certificates to Hong Kong Registrars Limited, the registrar of H shares of the Company, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, at or before 4:30 p.m. on 8 January 2018.

**3. Proxy**

- i. Shareholders entitled to attend and vote at the EGM are entitled to appoint, in written form, one or more proxies (whether a shareholder or not) to attend and vote on his behalf.
- ii. A proxy should be appointed by written instrument signed by the appointor or his attorney. If the written instrument is signed by the attorney of the appointor, the written authorisation or other authorisation documents of such attorney should be notarised. In order to be valid, for holders of A shares of the Company, the written authorisation or authorisation documents which have been notarised together with the completed proxy form must be delivered to the Company not less than 24 hours before the time of the holding of the EGM (the "Closing Time"). In order to be valid, for holders of H shares of the Company, the above documents must be delivered to Hong Kong Registrars Limited, at Floor 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, within the same period.
- iii. Shareholder or his proxy should produce identity proof when attending the EGM.
- iv. Since the proxy form (the "Original Proxy Form") sent together with the Original EGM Notice dated 22 December 2017 did not contain the New Resolution, a revised proxy form (the "Revised Proxy Form") will be sent to the shareholders. Any shareholder who intends to appoint a proxy to attend the EGM but has not yet lodged the Original Proxy Form is required to complete and return the enclosed Revised Proxy Form in accordance with the instructions printed thereon. In such case, the Original Proxy Form should not be lodged with the Company. Any shareholder who has already lodged the Original Proxy Form with the Company should also complete and return the enclosed Revised Proxy Form in accordance with the instructions printed thereon.
- v. If a shareholder has already lodged the Original Proxy Form despatched by the Company on 22 December 2017, he/she/it should note that:



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## REVISED NOTICE OF THE EGM

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- (a) if no Revised Proxy Form is lodged by the shareholder, the Original Proxy Form will be treated as a valid proxy form lodged by the shareholder if duly completed. The proxy appointed under the Original Proxy Form will also be entitled to vote in accordance with the instructions previously given by the shareholder or at his/her/its discretion (if no such instructions are given) on any resolution properly put to the EGM, including the New Resolution;
- (b) if the Revised Proxy Form is lodged by the shareholder before the Closing Time, the Revised Proxy Form will be treated as a valid proxy form lodged by such shareholder if duly completed, and the Original Proxy Form will be revoked and superseded by the Revised Proxy Form; and
- (c) if the Revised Proxy Form is lodged by the shareholder after the Closing Time, or if lodged before the Closing Time but is incorrectly completed, the Revised Proxy Form will be deemed invalid. It will not revoke the Original Proxy Form previously lodged by the Shareholder. The Original Proxy Form will be treated as a valid proxy form if duly completed. The proxy appointed under the Original Proxy Form will also be entitled to vote in accordance with the instructions previously given by the shareholder or at his/her/its discretion (if no such instructions are given) on any resolution properly put to the EGM (including the New Resolution).

4. The terms used in this revised notice shall have the same meaning as defined in the circular of the Company dated 23 January 2018. For details of the resolutions set out in this revised notice, please refer to the abovementioned circular.

**5. Poll**

Pursuant to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Articles of Association of the Company, voting at the EGM on the resolutions set out in the notice of the EGM will be taken by poll.

**6. Other matters**

- i. The duration of the EGM is expected not to exceed one day. Shareholders or proxies who attend the EGM shall arrange for transport, food, accommodation and other relevant expenses at their own cost.
- ii. Address of Hong Kong Registrars Limited (for share transfer):  
Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
- iii. Address of the Company:  
Podium Levels 2-4, Jiangu Building, Yitian Road, Futian District, Shenzhen, PRC  
Postal code: 518026  
Tel.: (86) 755 – 8285 3339  
Fax: (86) 755 – 8285 3411