



E-Newsletter

开卷语

Opening Message

GUIDANCE

- Opening Message
- Company News
- Operations Review
of Major Projects
- Frequently Asked
Questions

Dear investor:

In the first half of 2021, Shenzhen Expressway have been fighting on the front line of anti-epidemic and operation.

The newly opened Outer Ring Expressway performed beyond expectation and will contribute new growth momentum to the toll road business. The acquisition of three wind power projects in Mulei, Xinjiang, bringing the Company's total installed wind power capacity to nearly 550 MW. A total of 6.14 billion yuan bonds was issued, including one green corporate bonds, three ultra-short financing bonds and the US dollar bonds. Recently, the Company contracted to acquire 71.83% equity interests in Bay Area Development, which will further expand the scale of the Company's toll road business and enhance its sustainable development capability. The Company has also launched the Shareholder Return Plan for 2021-2023, which raises the dividend distribution ratio to 55%, allowing shareholders to share more of the Company's development achievements.

Best regards,

Chariman: Mr. HU Wei



Company News

Investor Relations Activities

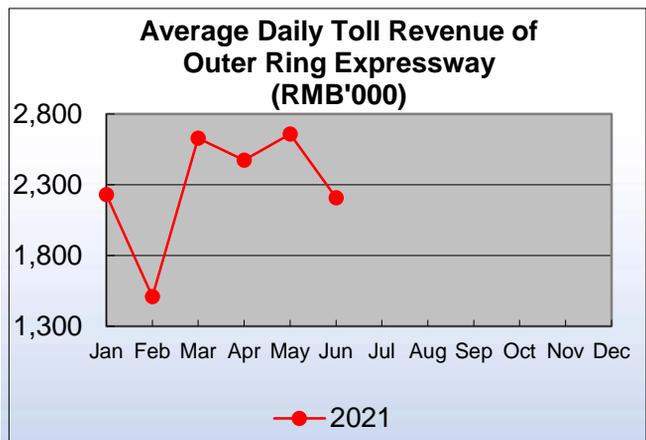
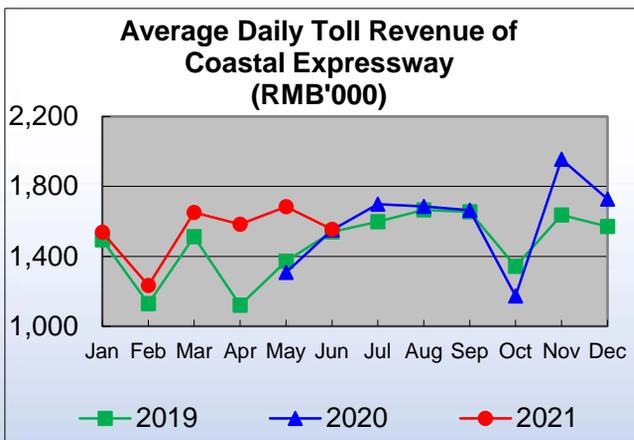
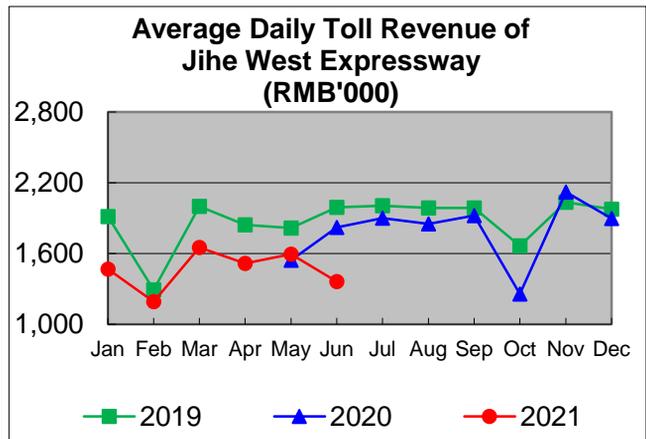
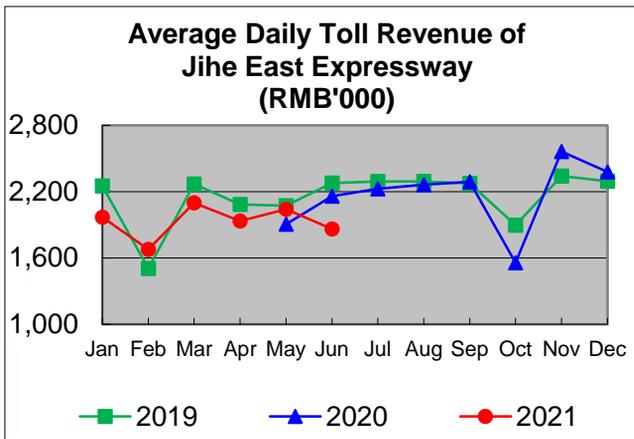
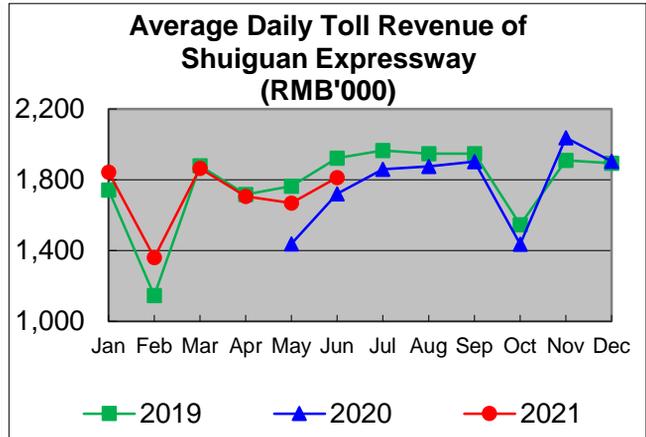
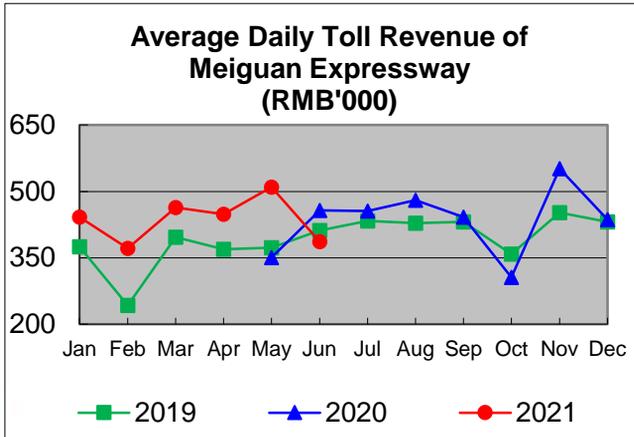
- From 25 March 2021 to 1 April 2021, the Company organized a series of online events for the Result Announcement of 2020.
- On 8 April 2021, the Company attended the “Industrial Securities Spring Strategy Conference 2021” in Xiamen, PRC.
- From 29 April 2021 to 30 April 2021, the Company organized a series of online events for the Result Announcement of 2021Q1.
- On 12 May 2021, the Company attended the “Huatai Securities • 2021 Hong Kong Stock Corporate Day 2021” in Shanghai, PRC.
- On 18 May 2021, the Company attended the “UBS 2021 Asian Transport & Logistics Day(Online)”
- On 25 May 2021, the Company attended the “Wonderful Sky IDEAS Summit 2021(Online)”

Market Evaluation & Recognition

- In January 2021, the Company was awarded for the “Best Market Communication” “Best Information Disclosure”, “Best Leader” and “Best Director” of the fourth China Excellent IR 2020-2021.
- In April 2021, the Company was awarded for the “Outstanding IR Enterprise” and “Friendly Corporate Communication” of Quanjing IR Golden Awards 2020.
- In May 2021, the Company won the “best Board Secretary of Mainboard Award” of the twelfth IR Tianma Awards of China Listing Company.
- In May 2021, the Company was awarded for the “Special Contribution Award” of an investment and education Event “Investment and Education Peer” held by the Association of Securities Industry in Shenzhen.
- In June 2021, according to the latest ESG score from FTSE Russell, the world's second largest index compiler, the Company scored 1.80, well above the average score of 1.38 for 526 Mainland companies, ranking 113th and 2nd among the 6 listed highway and railway companies included in the index.
- In July 2021, the Company won the “Listed Company CSR Award” from the Securities Times “Fifteenth China Listed Company Value Selection”.

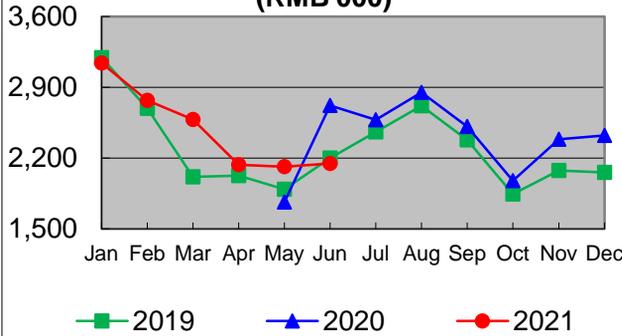


Operations Review of Major Projects

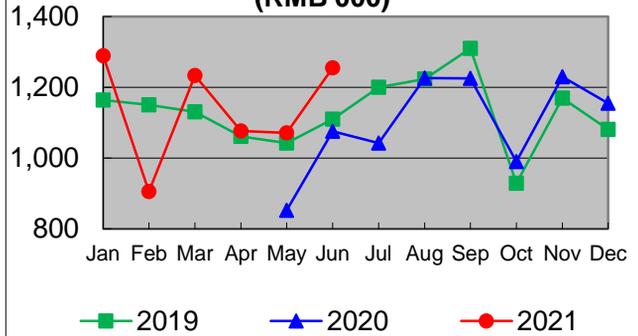




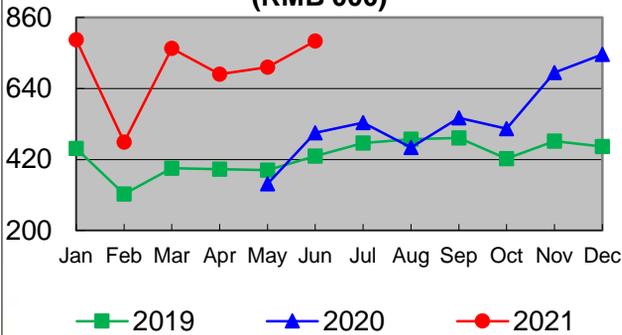
Average Daily Toll Revenue of Qinglian Expressway (RMB'000)



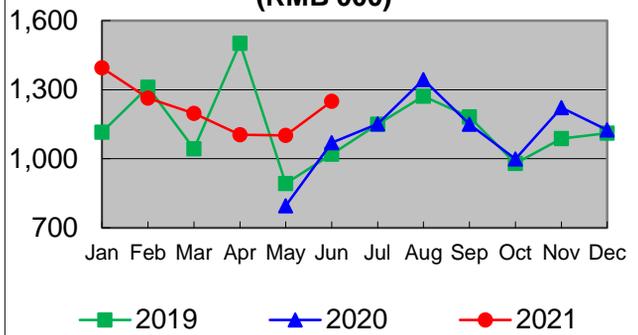
Average Daily Toll Revenue of Wuhuang Expressway (RMB'000)



Average Daily Toll Revenue of Changsha Ring Road (RMB'000)



Average Daily Toll Revenue of Yichang Expressway (RMB'000)



- ① With the domestic macro economy recovering and entering a stable state, the operational performance of the toll roads operated and invested by the Group has generally returned to normal.
- ② Due to the expressway toll-free policy (from 0:00 on 17 February 2020 to 0:00 on 6 May 2020) during the Spring Festival under epidemic, the Group failed to provide the operational data from January to April in 2020
- ③ Toll free policy for small passage cars during holidays lasted 7 days during the Spring Festival in February 2021. During the Spring Festival transportation in 2021, in response to the national call for "local Chinese New Year", the number of travel vehicles during this period was reduced and the toll income was less than that in normal years.
- ④ Implementation of the toll-free policy for small passenger cars on holidays in May 2021: 5 days.
- ⑤ Phase I of Outer Ring officially commenced operation on 29 December 2020, it achieved solid operating results, and inducing effect on the traffic volume of Meiguan Expressway and Coastal Expressway whereas causing certain diversion impact on the traffic volume of all sections of Jihe Expressway.
- ⑥ The surrounding network of Qinglian Expressway has been improved in 2020, having positive effect on its operation performance.
- ⑦ Affected by the epidemic in June 2021, the toll revenue of projects in Guangdong has decreased from May 2021.

Remarks:

- For operational performance of projects invested by the Group, please refer to "Investor Relations - Operational Statistics" of the Company's web-site (<http://www.sz-expressway.com>).
- The epidemic toll-free policy of nation-wide highways was implemented from 17 February 2020 to 5 May 2020.
- Due to the large data volume and the time required for splitting and reconciliation after the implementation of networked motorway toll collection in Guangdong Province, some operating data of provincial road sections have to be temporarily recorded in the form of estimates for monthly settlement and disclosure. investors are advised to use such data cautiously.



Frequently Asked Questions

1. Is the transaction consideration for Bay Area Development Project reasonable? Is the premium within a reasonable range?

A: The pricing is in the valuation range, not higher than the net asset valuation per share. The financial adviser, China Merchants Securities, adopted comparable company method to determine the market value valuation range of the price per share of 71.83% of the equity interest in Bay Area Development after adjusting for dividend payments at HK\$4.42 per share to HK\$4.71 per share, while Pengxin Appraisal adopted the asset-based approach to value Bay Area Development after adjusting for dividend payments at HK\$4.67 per share. Moreover, the price of this project is in compliance with the provisions of the Measures for the Supervision and Administration of State-owned Shareholdings in Listed Companies ("Order No. 36"). In addition, the transaction price of HK\$4.67 per share is comparable to the seller's previous transaction price of HK\$4.8 per share plus its net investment cost after taking into account its cost of capital, other related costs and deduction of cash dividends during the holding period. The transaction price represents a premium of approximately 14.4% over the carrying value, mainly because the amortisation of the fair value appreciation on the acquisition of Bay Area Development during the holding period of the seller reduced the carrying value. Such amortisation costs did not involve cash outflow and did not affect the valuation neither. Therefore, the price is essentially a cost recovery of the seller's investment and there is no premium.

In summary, the consideration is reasonable and the premium is within a reasonable range.

2. What values of Bay Area Development Projects included?

A: After asset evaluation, the Bay Area development value mainly includes the following four parts:

- 1) The stock value of the GS Superhighway of approximately RMB4 billion.
- 2) The value of the GS Superhighway Reconstruction and Expansion Project and land along the road of approximately RMB 1.2 billion (refer to the completed Xintang Project for land development valuation).
- 3) GZ West Superhighway valued at approximately RMB3.8 billion.
- 4) Xintang JV valued at approximately RMB400 million.

Considering the controlling interest premium of 15% and liquidity premium of 14% in the sum of approximately RMB2 billion, the value of 71.83% of the shares in Bay Area Development should be no less than RMB8.9 billion.



3. What is the payment method of the transaction for the Bay Area Development Project? What will be the impact on the financial indicators of Shenzhen Expressway?

A: The consideration of this transaction will be paid in cash. In first step, overseas short-term loan will be adopted, and the next step will be to optimize the capital structure of the overseas companies by means of capital injection and borrowings abroad from the Group, to increase the proportion of capital and medium and long term debt, to control the medium and long term funding costs at a lower level, and to reduce the Group's overall tax burden through the financial expense tax shield.

After the acquisition is completed, the total assets, total liabilities, total profit and net assets in the consolidated financial statements of Shenzhen Expressway will be increased. The asset scale of Shenzhen Expressway will increase by RMB 9.4 billion. The proportion of toll road assets will increase by about five percentage points. The proportion of infrastructure and land development business assets will increase by two percentage points, conducive to the early achievement of the Company's "14th Five-Year Plan" strategic objectives.

4. What is the impact and significance of this acquisition for the Company?

A: Seizing the opportunities of promoting the reform of state-owned enterprises, improving the industrial layout and promoting the coordination of similar resources, Shenzhen Expressway can achieve the goals of acquiring high-quality toll road assets, expanding the scale and profit base of toll road business, and tapping new profit growth points.

(1) GS Superhighway and GZ West Superhighway are scarce road resources. The acquisition will expand the toll road assets of Shenzhen Expressway, help the Company improve future profitability and cash flow, and consolidate the core advantages in toll road investment and operation management, which is in line with the development strategy and overall interests of the Company.

(2) It can strengthen the integrated management of traffic volume and operation and maintenance of toll roads in the Greater Bay Area between Shenzhen Expressway and Bay Area Development, synergistically improve the traffic volume of the road network and promote refined management of maintenance, thereby reducing maintenance costs.

(3) Based on the respective strengths of both parties, their business positioning can be defined, the design and integration of business expansion can be optimized, and synergies can be made in investment and mergers and acquisitions, and capital operation.

(4) Shenzhen Expressway has rich practical experience in investment and financing model innovation, construction management innovation, concession operation innovation and comprehensive land development of major projects such as Outer Ring Expressway and Jihe Expressway Reconstruction and Expansion, and can assist in the completion of the GS Superhighway reconstruction and expansion and land development projects along its route by leveraging the above experience and advantages to achieve a win-win situation for both parties.



5. Overview of the GS Superhighway Reconstruction and Expansion Project and how to make fund arrangements? How will Shenzhen Expressway participate and what benefits can be gained from it? If the project is not completed before the expiration of the concession period by June 2027, will it affect the tolling rights?

A: GS Superhighway is an important corridor connecting Guangzhou, Dongguan, Shenzhen and Hong Kong. At present, the average daily traffic volume of the entire route has exceeded 100,000 vehicles per day, and the traffic volume is close to saturation, so there is an urgent need for reconstruction and expansion. In addition to the 20 km already expanded to 10 lanes, the remaining 118 km will be expanded from the existing 6 lanes to 8 to 12 lanes in different sections, with a preliminary investment estimate of approximately RMB47.1 billion. The Shenzhen Section will be approximately 47 km, accounting for 39.8% of the total mileage of the expansion. With Bay Area Development and its invested joint venture Guangzhou-Shenzhen-Zhuhai Highway Limited as the investment body, the project will be approved and started by the end of 2022. Based on experience, the project is expected to be completed in June 2027. The project company will endeavor to achieve an effective dovetailing between the completion of the original toll period and the continuation of the new toll period. Even if the project is not fully completed before June 2027, efforts will be made to ensure that the concession extension is approved before the expiration of the original operating period.

The reconstruction and expansion of GS Superhighway will ensure a reasonable commercial return on the project investment through innovative investment and financing models such as government subsidies, co-investment and land development along the route. Bay Area Development, a Hong Kong listed company, can solve the source of capital for the reconstruction and expansion through various ways such as equity financing, debt financing or bank borrowing. Guangzhou-Shenzhen-Zhuhai Highway Limited can solve the source of borrowing capital through various financing methods.

Shenzhen Expressway will make full use of its own advantages and draw on the investment and financing models and relevant experience of projects such as Outer Ring Expressway and Jihe Reconstruction and Expansion to participate fully and deeply in the whole process of planning, investment and construction of the reconstruction and expansion of GS Superhighway. After the completion of reconstruction and expansion, the concession period of GS Superhighway may have the chance to be extended by 25 years and the Company will receive a corresponding return on investment.

6. How much land is available for development along GS Superhighway? What is the progress?

A: The proportion of land development rights and interests varies in different areas along GS Superhighway. Bay Area Development accounts for 37.5% in Guangzhou area, 57.5% in Shenzhen area, and the proportion in Dongguan will be determined by the leading party. The suitable areas for land development is toll stations and interchanges. There are 18 million sq.m. of land has acquired for construction including 23 toll stations and interchanges. The Guangzhou Xintang Project of approximately 196,000 square meters of transportation land, with a planned capacity building area of approximately 600,000 square meters, has implemented the comprehensive development in 2019. The residential construction will be carried out in three phases. The pre-sale of the first phase of approximately 70,000 square meters of residences has commenced in 2019. It is scheduled to be delivered by the end of 2022 and revenue will be confirmed. Other land development projects along GS Superhighway will be carried out one after another.



7. After the completion of the acquisition, what is the positioning of the Bay Area Development and in what ways is it synergistic with the Shenzhen Expressway?

A: Upon completing the transaction, Bay Area Development is positioned as an overseas listed platform holding high-quality mature assets with a simple and clear business model and sound financial returns. In the short and medium term, it will address the capital requirements for the reconstruction and expansion of the Guangshen Superhighway through equity financing, and acquire equity interests in mature highways within the Greater Bay Area in due course. In the long term, Bay Area Development will also aim to enhance the integration of Hong Kong, Macau and the Greater Bay Area and become an important strategic platform for Shenzhen and Shenzhen State-owned assets in the Greater Bay Area of Guangdong, Hong Kong and Macau.

After the completion of the acquisition, Shenzhen Expressway and Bay Area Development will achieve synergistic development mainly in the areas of business development and capital operation.

1) Business development synergy

●Road network synergy: through the refined management of GS Superhighway and Coastal Expressway, Outer Ring, etc. to achieve road network synergy.

●Participation in the reconstruction and expansion of the GS Superhighway: fully utilising our own advantages and innovative management experience in Outer Ring and the reconstruction and expansion of Jihe Expressway, the Company will participate deeply in the reconstruction and expansion project of the GS Superhighway.

●Synergistic development of land along the highway: Actively participate in the development of land along the highway. Integrate and synergise the personnel and mechanisms related to land development after the acquisition. To provide a favourable guarantee for the accelerated promotion and value realisation of land development of Bay Area Development.

2) Capital operation synergy

Bay Area Development will maintain a stable dividend policy and make full use of its overseas financing platform to help Shenzhen Expressway build a diversified financing channels in capital market. At the same time, the Company will leverage its capabilities and advantages in construction and operation management of infrastructure industry to carry out investment layouts and provide management services.

8. Will the future improvement of the road network in the Guangdong-Hong Kong-Macao Greater Bay Area divert traffic from the GS Superhighway and GZ West Superhighway?

A: The GS Superhighway and GZ West Superhighway are the main "A-shaped" corridors on the east and west of the Pearl River Estuary, serving as important north-south transport links between Guangdong, Hong Kong and Macao, especially in the Pearl River Delta region, and playing a key role in achieving the one-hour transport circle, improving the regional transport conditions and investment environment, and promoting overall economic development. The two projects also have the important task of supporting the Guangdong-Hong Kong-Macao Greater Bay Area to become an international first-class bay area and world-class city cluster, and promoting and enhancing the connectivity of transport infrastructure in the Greater Bay Area.

According to the Guangdong Provincial Expressway Network Plan and the 14th Five-Year Plan, no new parallel highway of the GS Superhighway are planned until 2035. During this period, the completion and commissioning of the Shenzhen-China Passage and other river crossings will have no impact on the traffic flow of the GS Superhighway, and may also promote the growth of traffic flow of the GS Superhighway due to the further improvement of the overall road network. In addition, after the completion of the reconstruction and expansion of the GS Superhighway, the capacity will be greatly enhanced, the current traffic congestion and service level will be improved and enhanced, the traffic attraction will be increased, and the traffic volume and road toll revenue will also be enhanced.



According to the Guangdong Provincial Expressway Network Plan and the "14th Five-Year Plan", the projects under construction closely related to the GZ West include the Shenzhen-Zhongshan Corridor (2024) and the Guangzhou Ruyifang Radiation Line (2022). The planned route includes the Outer Ring Expressway of the eastern part of Zhongshan City (2024). The successive construction of these projects will further improve the regional expressway network. Although it will also form a pattern of multiple routes with the same channel, it is considered to benefit from the comprehensive strength of South China and the strong economic strength of Guangdong Province, especially the economic development of the Pearl River Delta region. As the overall traffic flow of expressways in the region is induced, the traffic flow and toll revenue of the and GZ West Superhighway will maintain sustained and steady growth.

According to the "Research on Traffic Volume and Revenue Forecast of GS Superhighway and GZ West Superhighway" issued by the Guangdong Transportation Planning and Research Center, it is expected that the concession will be extended by 25 years after the reconstruction and expansion of the GS Superhighway, that is, by 2052. The total traffic flow is about 225,000 vehicles per day, and the toll revenue can reach 3.23 billion yuan per year; the highest year of toll revenue on GZ West Superhighway can reach 2.61 billion yuan per year.

9. The Bay Area development is also involved in real estate, will it have any impact on the secondary market financing of Shenzhen Expressway?

A: The current real estate projects of Bay Area Development are non-controlling, and there are no real estate development irregularities such as idle land, land speculation, as well as covering the sale of properties and inflating the price of properties, etc. Shenzhen Expressway will not touch the restrictive refinancing situation as stipulated in the "SFC Adjustment of Supervision Policies on Refinancing, M&A and Restructuring of Listed Companies Involving Real Estate Business" as a result of the acquisition of Bay Area Development.

At the current stage, according to the recent situation in the capital market, the SFC's regulatory policy on equity refinancing of listed companies involving real estate is relatively strict, and the implementation of equity refinancing for listed companies involving real estate requires the divestment of real estate related businesses in principle. There is a certain degree of uncertainty as to the continuation and adjustment of the relevant regulatory policies, pending further communication with the regulatory authorities at that time. Considering that the company has held and involved the real estate development business subject before this transaction and the housing-related business interests in the Bay Area Development are minority interests, the development project is a supporting real estate project of the overall interchange transformation project and a non-independent real estate development project, therefore, the Company's new non-holding real estate business due to the acquisition of the Bay Area Development is not expected to have a substantial impact on the Company's original financing conditions and planning.

After the acquisition, Bay Area Development will remain an overseas registered, independent Hong Kong listed company and its equity financing will not be affected by the relevant regulatory policies of the China Securities Regulatory Commission.

Various financing options have been planned in the 14th Five-Year Plan of Shenzhen Expressway, which can address the financing needs of the Company during the 14th Five-Year Plan period, while Bay Area Development, as a Hong Kong listed company, can further enrich the financing channels of Shenzhen Expressway.



10. Why didn't Shenzhen Expressway participate in the first acquisition of Bay Area Development in 2017?

A: In 2017, before SIICHIC contracted to acquire shares of HHI, SIHC had asked Shenzhen Expressway whether considered to take as the dominant acquisition entity for the project without disclosing the name of the target company. Based on the business of the subject company, the scale of the acquisition, the time frame for completion of the acquisition and other conditions provided by SIHC, the Company believed that the acquisition is not feasible and gave up the opportunity at the time.

11. What is the financial situation of the Bay Area development?

A: Net profit for 2020 was RMB689 million with a YOY increase of 13%, mainly due to the sale of 22.5% of Xintang JV and the appreciation of RMB, which offset the impact of the epidemic and toll-free policy. By the end of 2020, Bay Area Development will have total assets of RMB6.6 billion and net assets of RMB5 billion.

12. Bay Area Development is currently paying dividends at a 100% dividend rate, will the existing dividend policy be changed upon completion of the acquisition?

A: After completing the acquisition, Shenzhen Expressway, as the new major shareholder, intends to continue to maintain the existing dividend policy for the development of the Bay Area, maintain its listing status, and maintain market stability and market image.

13. What is the basis and rationality of the transaction for the buyer to take over the potential shortfall obligation of SIHC to CMF Fund? Is the contingent consideration involved in the performance of the relevant obligations anticipated? If so, is the contingent consideration expected to be sufficient? What is the impact on the investment income?

A: The shortfall obligation is a necessary and joint and several obligation arising from the previous acquisition of Bay Area Development by SIHC and the maintenance of its listing status, and the shortfall obligation shall be considered together with this transaction as a whole in the event that SIHC sells all its shares in the Bay Area Development.

In the event that the difference make-up obligation is actually incurred in the future, it shall be undertaken by the Company and we shall pay to SIHC the expenses incurred by SIHC in fulfilling such difference make-up obligation.

Relevant contingent consideration amount has been reasonably assessed by the asset valuation company and included in the total consideration of the transaction. Accordingly, the rationality of the pricing can be evaluated and the investment return and economic feasibility of the project can be measured.



14. In recent years, the Company has a lot of engineering construction and plans to increase investment in the environmental protection field. How does the Company arrange the construction schedule and capital expenditure plan for each project? What new financing arrangements does the Company have if it cannot complete the H-share issuance in the future?

A: The Phase I of Outer Ring Expressway was completed and opened to traffic at the end of 2020, with traffic volume and toll revenue better than expected. The construction of Phase II with 10 km is nearing completion and it is expected to be opened to traffic next year. The Reconstruction and Expansion of Jihe Expressway will adopt the PPP model with joint investment by the government. The construction period is about 5 years with normal toll collection during construction. The preliminary works of the Phase III of Outer Ring Expressway and Shenshan Second Expressway are carrying out, and it is preliminarily judged that they will be referred to the PPP model of Reconstruction and Expansion of Jihe Expressway. The direction of investment in environmental protection is mainly focused on clean energy and recovery and solid waste segments, and the relevant projects have started to generate positive revenue and profit contributions for the Company. For the above-mentioned investment projects, the Company has made good capital expenditure plans and will combine financial resources to reasonably grasp the pace of investment, use diversified financing methods, reduce financing costs, optimize the debt structure, and meet the Company's investment needs under the premise of ensuring a safe financial position to achieve its strategic objectives.

In the 14th Five-Year Plan of Shenzhen Expressway, the overall plan of financing has been included, i.e. to make full use of the multi-level capital market such as "A+H" and other financing tools, to promote the breakthrough of equity financing, to maintain the overall balance of capital structure and the best comprehensive capital cost, and to the Company is studying feasible equity financing options and will also study how to make full use of Bay Area Development as an overseas financing platform to carry out capital operations after the completion of the acquisition.

About Shenzhen Expressway

Shenzhen Expressway was established on 30 December 1996. In March 1997, the Company issued foreign capital shares (H Shares) which were subsequently listed on The Stock Exchange of Hong Kong Limited on 12 March 1997. In December 2001, the Company issued Renminbi-denominated ordinary shares (A Shares) which were subsequently listed on the Shanghai Stock Exchange on 25 December 2001. The Company is mainly engaged in the investment, construction, operation and management of toll highways.

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