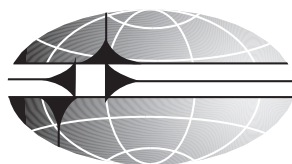


**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**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)**

- (1) ISSUANCE OF H SHARES UNDER SPECIFIC MANDATE**  
**(2) CONNECTED TRANSACTION – SZ INTERNATIONAL SUBSCRIPTION**  
**(3) NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING 2020**  
**AND**  
**(4) NOTICE OF THE FIRST CLASS MEETING 2020 OF HOLDERS OF H**  
**SHARES**



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## DEFINITIONS

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

“A Shareholders”	holders of A Shares
“A Shares”	domestic shares with nominal value of RMB1.00 each in the ordinary share capital of the Company, which are listed on the Shanghai Stock Exchange and traded in RMB (stock code: 600548)
“ACM”	the class meeting of holders of A Shares to be convened and held immediately after the conclusion of the EGM, to consider and, if thought fit, approve the Issuance under the Specific Mandate (Including the arrangement of the mandate)
“Articles of Association”	the articles of association of the Company (as amended from time to time)
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of directors of the Company
“business day(s)”	a day on which commercial banks in Hong Kong are generally open for business (excluding Saturday, Sunday, public holiday or any day on which a tropical cyclone warning No.8 or above or a “black rainstorm warning signal” is hoisted in Hong Kong at any time between the hours of 9:00 a.m. and 5:00 p.m.)
“Class Meetings”	the ACM and HCM
“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
“CSRC”	China Securities Regulatory Commission
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting to be convened and held by the Company, to consider and, if thought fit, approve the Issuance under the Specific Mandate (including the arrangement of the mandate) and the SZ International Subscription
“Group”	the Company and its subsidiaries

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## DEFINITIONS

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“HCM”	the class meeting of holders of H Shares to be convened and held immediately after the conclusion of the ACM, to consider and, if thought fit, approve the Issuance under the Specific Mandate (including the arrangement of the mandate)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“H Shareholders”	holders of H Shares
“H Share(s)”	the overseas listed foreign share(s) with nominal value of RMB1.00 each in the ordinary share capital of the Company, which are listed on the main board of Stock Exchange and traded in Hong Kong in HK\$ (stock code: 00548)
“Independent Board Committee”	independent board committee consisting of all independent non-executive Directors formed to advise the Independent Shareholders in relation to the SZ International Subscription
“Independent Financial Adviser” or “Octal Capital”	Octal Capital Limited, a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the SZ International Subscription
“Independent Shareholder(s)”	shareholders other than the subscriber and its associates
“Issuance”	the proposed non-public issuance by the Company of not more than 300 million H Shares to eligible investors (including the SZ International Subscribers)
“Latest Practicable Date”	21 February 2020, being the latest practicable date for ascertaining certain information for inclusion in this circular
“Letter of Intent”	the letter of intent for shares subscription issued by SZ International to the Company on 2 January 2020, in relation to its intended subscription for H Shares issued in the Issuance
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China, and for the purposes of this circular only, excluding Hong Kong, the Macau Special Administrative Region and Taiwan

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## DEFINITIONS

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“Pricing Benchmark Date”	the date on which the H Shares placing/subscription agreement(s) is entered into
“RMB”	Renminbi, the lawful currency of the PRC
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中國國務院國有資產監督管理委員會)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Specific Mandate”	the specific mandate to be granted by the Shareholders to the Board at the EGM and the Class Meetings in relation to the Issuance
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SZ International”	Shenzhen International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange, a controlling shareholder and a connected person of the Company
“SZ International Subscribers”	SZ International and/or its designated controlled subsidiaries other than the Company and its subsidiaries who participated in the subscription
“SZ International Subscription”	the proposed subscription by SZ International of H Shares issued in the Issuance through the SZ International Subscribers
“%”	per cent

*Notes:*

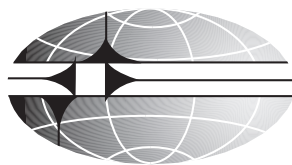
In this circular, certain English names of Chinese entities are translation of their Chinese names, and are included herein for identification purpose only. In the event of any inconsistency, the Chinese names shall prevail.

In this circular, HK\$ and RMB are converted at the exchange rate of HK\$1.00 to RMB0.90. This exchange rate is for reference only and does not mean that RMB or HK\$ amounts have been or can be converted at that exchange rate or any other exchange rate.

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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. LIAO Xiang Wen (*President*)  
Mr. WEN Liang

*Non-executive Directors:*

Ms. CHEN Yan  
Mr. FAN Zhi Yong  
Mr. CHEN Yuan Jun  
Mr. CHEN Kai

*Independent Non-executive Directors:*

Mr. CAI Shu Guang  
Mr. WAN Siu Wah Wilson  
Ms. CHEN Xiao Lu  
Mr. BAI Hua

*Legal Address:*

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

*Place of Business in PRC:*

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

*Principal Place of Business in Hong Kong:*

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

27 February 2020

*To the Shareholders of the Company*

Dear Sirs or Madams,

- (1) ISSUANCE OF H SHARES UNDER SPECIFIC MANDATE**  
**(2) CONNECTED TRANSACTION – SZ INTERNATIONAL SUBSCRIPTION**  
**(3) NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING 2020**  
**AND**  
**(4) NOTICE OF THE FIRST CLASS MEETING 2020 OF HOLDERS OF H**  
**SHARES**

### **INTRODUCTION**

Reference is made to the announcement of the Company dated 10 January 2020 in relation to the Issuance and the SZ International Subscription. The purpose of this circular is to provide you with details of the above matters to enable the Shareholders to make an informed decision on whether to vote for or against or abstain from voting on the resolutions proposed at the EGM and the Class Meetings.

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## LETTER FROM THE BOARD

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### 1. THE ISSUANCE UNDER SPECIFIC MANDATE

On 10 January 2020, the Board has resolved to convene the EGM and the Class Meetings for approval of the proposed Specific Mandate to the Board to issue not more than 300 million H Shares. Details of the Issuance are as follows:

#### 1.1 Type and nominal value of Shares to be issued

The type of Shares to be issued under the Issuance is H Shares, with par value of RMB1.00 each.

#### 1.2 Method and timing of issuance

The Issuance will be made under the Specific Mandate as granted by the EGM and the Class Meetings by way of non-public issue to specific subscribers. The Company will convene the EGM and the Class Meetings to seek approval from the Shareholders in relation to the granting of the Specific mandate.

The Issuance will be implemented by the Company in due course within the validity period of the approval and upon obtaining approvals from relevant regulatory authorities including the CSRC and the approval of listing from the Stock Exchange for the Issuance.

#### 1.3 Method of subscription

The subscribers of the Issuance will make a one-off subscription in cash for the Issuance of H Shares.

#### 1.4 Subscribers

The subscribers of the Issuance are eligible investors, including the SZ International Subscribers.

If the SZ International Subscribers eventually participate in the subscription for H Shares in the Issuance, the Issuance of H Shares to the SZ International Subscribers and non-connected eligible investors shall be completed simultaneously.

Saved as the SZ International Subscribers, the Company currently expects that none of the other investors in the Issuance would become a substantial shareholder (as defined under the Listing Rules) of the Company as a result of completion of the Issuance.

As of the Latest Practicable Date, the Company had not yet identified any placing agent or other investor, nor had it entered into any definitive agreement, for the Issuance. The Company will make further announcement(s) upon entering into any definitive agreement(s) with placing agent(s) and/or investor(s) in connection with the Issuance where appropriate or as required under the Listing Rules.

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## LETTER FROM THE BOARD

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### 1.5 Size of the Issuance

Pursuant to the relevant laws and regulations and in light of the Company's financial status and investment plans, the total amount of H Shares to be issued will be not more than 300 million (inclusive).

The final number of H Shares ultimately issued will be determined by the Board and its authorised person(s) based on the market conditions at that time as authorised by the EGM and the Class Meetings.

Prior to the Issuance, the total number of Shares in issue of the Company is 2,180,770,326 Shares, in which the number of H Shares is 747,500,000 Shares; upon the completion of the Issuances (assuming the maximum 300,000,000 new H Shares will be issued), the total number of Shares in issue of the Company will be 2,480,770,326 Shares, in which the number of H Shares will be 1,047,500,000 Shares and the number of A Shares will remain unchanged as 1,433,270,326 Shares.

### 1.6 Method of pricing, Pricing Benchmark Date, issue price and adjustment of issue price

The pricing of the Issuance will be conducted with reference to the valuation indicators such as the trading price of the Company's H Shares in the secondary market, price-earnings ratio and price-to-book ratio, and will take into account factors such as the Company's development, the Company's existing Shareholders' interests, investor acceptance and the risks of the issuance. If the SZ International Subscribers eventually subscribe for H Shares in the Issuance, the subscription price of H Shares for the SZ International Subscribers will be the same as the subscriptions by other non-connected eligible investors.

The Pricing Benchmark Date of the Issuance is the date on which the H Shares placing/subscription agreement is entered into, and the issue price will be no lower than the higher of the following:

- (a) the latest audited net asset value (upon exchange rate conversion) per share of the Company attributable to ordinary shareholders of the parent company as of the Pricing Benchmark Date
- (b) 90% of the average trading price of the H Shares traded in the Stock Exchange during the 5 consecutive trading days preceding the Pricing Benchmark Date

of which, the average trading price of the H Shares in the 5 trading days preceding the Pricing Benchmark Date = the total trading amount of H Shares traded in the 5 trading days preceding the Pricing Benchmark Date/the total volume of H Shares traded in the 5 trading days preceding the Pricing Benchmark Date.



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## LETTER FROM THE BOARD

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If any ex-right or ex-dividend event, including dividend distribution, bonus issue, rights issue, and conversion of capital reserve into share capital occurs during these 5 trading days, the trading prices of the Shares for the trading days preceding such adjustment shall be adjusted in view of such ex-right or ex-dividend event.

The net asset value per Share mentioned above will be adjusted based on any ex-right or ex-dividend event, including dividend distribution, bonus issue, rights issue, and conversion of capital reserve into share capital occurs during the period from the balance sheet date of the Company's latest audited financial report as of the date of the Pricing Benchmark Date to the date of the Issuance.

If any ex-right or ex-dividend event, including dividend distribution, bonus issue, rights issue, and conversion of capital reserve into share capital, occurs during the period from the Pricing Benchmark Date to the date of the Issuance of H Shares, the issue price shall be adjusted in view of such ex-right or ex-dividend event.

The final issue price of the Issuance will be determined by the Board and its authorised person(s) based on the market conditions as authorised by the EGM and the Class Meetings.

### **1.7 Use of proceeds**

Proceeds from the Issuance, after deducting the related costs and expenses, will be used for the investment on the principal businesses of the Company, including highways and environmental protection, the repayment of debts of the Company and its subsidiaries, and also for the supplement of working capital.

### **1.8 The arrangement for accumulated undistributed profits before the completion of the Issuance**

The Company's undistributed profits accumulated prior to the Issuance shall be shared by all the Shareholders of the Company after the completion of Issuance.

### **1.9 Place of listing**

The H Share to be issued under the Issuance will be listed and traded on the Main Board of the Stock Exchange in accordance with the relevant rules.

### **1.10 Validity period of the resolutions**

The resolutions in relation to the Issuance shall be valid for 12 months from the date of approval at the EGM and the Class Meetings.

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## LETTER FROM THE BOARD

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### **1.11 Approval for the grant of authority to the Board and its authorised person(s) to handle matters in relation to the Issuance at their sole discretion**

The Board has proposed to the EGM and the Class Meetings that the Board and the its authorised person(s) for all the powers necessary to deal with and complete all the matters in relation to the Issuance, including but not limited to:

- (a) to formulate and implement a specific plan for the Issuance in accordance with the Issuance as approved at the EGM and the Class Meetings and the Company's situation, and within the scope of relevant laws, regulations and normative documents, on matters including but not limited to the timing of the Issuance, the amount of the Issuance, starting and ending dates of the Issuance, method of pricing, issue price, subscribers, lock-up period, detailed plan for proceeds and other matters related to issuance plan.
- (b) when necessary, to make appropriate adjustments to the plan of the Issuance and continue to handle matters in relation to the Issuance pursuant to the new regulations, guidance and national policies formulated by domestic and overseas securities regulatory authorities and exchanges, market conditions and the actual needs of the Company, and in accordance with the principle of safeguarding the maximisation of interests of the Company and the purpose of the Issuance, save for those which are required to be voted on again at the general meeting in accordance with the relevant laws, regulations, normative documents and the Articles of Association.
- (c) to prepare, produce, amend, supplement, execute, submit, report, perform, publish, print, suspend and/or terminate all the agreements or documents related to the Issuance (and subscription of shares thereunder), including but not limited to, application documents submitted to domestic and overseas regulatory authorities, placing/subscription agreements, announcements, circulars and other documents published or printed as required by the Listing Rules.
- (d) to engage professional parties to undertake all the works related to the Issuance and the examination, registration, filing, approval, postponement and/or withdrawal of the Issuance and listing, and to do all necessary, advisable or appropriate acts related to the Issuance and listing in accordance with the requirements and guidelines of relevant government departments, regulatory authorities and stock exchanges.
- (e) to amend terms in relation to the registered capital, total number of shares, shareholding structure, corporate history and other corresponding terms in the Articles of Association according to the actual circumstances of the Issuance, and to set up special account for proceeds, verify capital, register the changes in the relevant industrial and commercial registration and conduct other relevant matters.
- (f) to proceed with the share registration procedures, listing and other relevant matters of the new Shares upon completion of the Issuance.

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## LETTER FROM THE BOARD

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- (g) to conduct other matters relating to the Issuance within the scope permitted by the relevant laws, regulations and the Articles of Association.

The authorisation with respect to matters under items (d) to (f) above will become valid upon approval at the EGM and the Class Meetings and remain valid as long as such matter persists, while the authorisation with respect to any other matter above shall be effective for a period of 12 months from the date of approval at the EGM and the Class Meetings.

It is proposed by the Board to the EGM and the Class Meetings to approve the Board to authorise the Chairman and the President of the Company to act as the authorised persons in relation to the Issuance, and to deal with related matters of the Issuance and execute the relevant legal documents. The above authorised persons shall be entitled to handle the above matters in relation to the Issuance on behalf of the Company in the course of the Issuance according to the scope of authorisation as determined in the resolutions of the EGM and the Class Meetings and the authorisation of the Board.

### 2. THE SZ INTERNATIONAL SUBSCRIPTION

The subscribers of the Issuance are eligible investors, including the SZ International Subscribers.

The Company has also received the Letter of Intent from SZ International, setting forth its intention to have the SZ International Subscribers subscribe for not less than 39% of the total number of the H Shares to be issued under the Issuance, subject to approvals for the Issuance from domestic and overseas regulatory authorities and fulfilment of necessary approval procedures by SZ International. The subscription terms applicable to the SZ International Subscribers in the Issuance, including but not limited to the number of Shares to be subscribed for and the subscription price, will be determined by and subject to the subscription agreement to be executed.

If the SZ International Subscribers eventually subscribe for H Shares in the Issuance, the Company shall issue Shares to the SZ International Subscribers at such price consistent with that available to the non-connected eligible investors, and the issuance of H Shares by the Company to the SZ International Subscribers and non-connected eligible investors shall be completed simultaneously.

As SZ International is the controlling shareholder of the Company, and SZ International and its subsidiaries are connected persons of the Company under the Listing Rules, SZ International Subscription will constitute a connected transaction of the Company, and is subject to the announcement, reporting, and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company will convene the EGM to seek Shareholders' approval for the SZ International Subscription. SZ International and its associates shall abstain from voting.

### 3. PRICING PRINCIPLES OF THE ISSUANCE

In determining the method of pricing, the Board has made reference to the following factors: (i) in accordance with Article 10 of Measures for the Supervision and Administration of State-owned Equity of Listed Companies in the PRC (《上市公司國有股權監督管理辦法》) (SASAC, Ministry of Finance, and CSRC Order No. 36), the changes in state-owned shares of listed companies should be

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## LETTER FROM THE BOARD

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reasonably priced with reference to factors such as the price of publicly traded shares in the stock market, the price of comparable companies' shares and the net asset value per share. As the Company is a state-controlled listed company, the Board shall refer to such provisions and use no less than the net asset value per share as the pricing basis for the placing of H Shares; (ii) the unaudited net asset value per Share attributable to equity holders of the parent company as of 30 September 2019 was approximately RMB8.25 per Share (approximately HK\$9.17 per Share), being the most recent net asset value per Share; (iii) the price-earning ratio and price-to-book ratio of the H Shares of the Company and other companies in the same industry; and (iv) the 10% discount falls within the normal discount range of the subscription price in recent transactions of similar kind by companies listed in the Stock Exchange.

Based on the above considerations, the Board considers that setting the price as no less than the net asset value per Share and a 10% discount on the average trading price of the H Shares of the Company traded in the Stock Exchange during the 5 consecutive trading days preceding the Pricing Benchmark Date are in line with the market practice and the actual situation of the Issuance, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

#### **4. REASONS FOR THE ISSUANCE AND THE PROPOSED USE OF PROCEEDS**

The Company's businesses are capital-intensive and capital is critical to the sustainability of the Company. To enhance the Company's core businesses and the development of new growth-oriented businesses through external financing are important to enhancing the overall strength of the enterprise and achieving higher shareholder returns. The Company intends to use the proceeds from the Issuance for the repayment of debts of the Company and its subsidiaries, the investment on the principal businesses, including highways and environmental protection, and also for the supplement of working capital, etc. The Company will allocate the proceeds based on the principle of maximising the efficiency of capital utilisation and improving the performance of the Company, taking into account the time when the proceeds are received and the progress of specific projects. According to the business plan and fund allocation of the Company, the Company expects that the proceeds would be fully utilised within a year after the completion of the Issuance. The Directors of the Company believe that the Issuance is beneficial for the Company's future business development, and will optimise its capital structure, lower the financial cost, enhance its profitability continuously, further expand the room for financing of the Company in the future and enhance the core competitiveness of its main business, which is in line with the long-term development strategies of the Company and is in the interest of the Company and all Shareholders as a whole.

The Company and its subsidiaries have interest-bearing debt expiring in the next 24 months of approximately RMB5.7 billion, most of which are with interest rates ranging from 1.3% to 6.56%, with interest rate of certain debt of newly acquired subsidiaries up to 10.05%. The Issuance will enable the Company to flexibly and prudently arrange funds for repayment for loans with higher interest and payment for investment development.

Since 2018, the PRC has successively issued a series of policies, such as the Work Plan for State-owned Enterprises Reform "Double-Hundred Action" (《國企改革「雙百行動」工作方案》), the Outline Development Plan for Guangdong-Hong Kong-Macao Greater Bay Area (《粵港澳大灣區發展規劃綱要》), and the Opinion of the State Council on Supporting the Building of Shenzhen into a

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## LETTER FROM THE BOARD

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Pilot Demonstration Zone of Socialism with Chinese Characteristics (《國務院關於支持深圳建設中國特色社會主義先行示範區的意見》), bringing historic opportunities to the reform of state-owned enterprises and regional development. In addition, various government policies have been introduced recently by government at all levels, including the speeding up of building rapid transport network in the Greater Bay Area, construction of traffic network in Guangdong Province and classification of urban organic waste. The Group will comply with the national strategic layout of the development of state-owned enterprises and regions, provide high quality services in the two major business sectors of transportation and environmental protection, consolidate and enhance the advantages of toll highway industry, while actively expand in the environmental protection industry so as to realise its own development.

The Company's current toll highways projects which are under construction in Guangdong-Hong Kong-Macau Greater Bay Area include Shenzhen Outer Ring Expressway Phase A Project (“**Outer Ring Expressway**”) and Guangshen Coastal Expressway (Shenzhen Section) Phase II Project (“**Coastal Phase II**”). As of 31 December 2019, the construction of roadbed, bridge pile foundation, tunnel and pavement of the Outer Ring Expressway has commenced, for which the Company is still required to invest approximately RMB3 billion; the construction of pile foundation, pier column and bridge for Coastal Phase II has commenced, for which the Company is still required to invest approximately RMB1 billion. The Company is still actively carrying out the preliminary work on the reconstruction and expansion of Jihe Expressway in Shenzhen, and has reached a preliminary consensus with the government management departments at all levels on the overall construction plan. In addition, in order to promote the development and construction of the Shenzhen-Shantou Special Cooperation Zone, the Company is carrying out preliminary works such as feasibility studies on highway infrastructure construction in accordance with the requirements of the government, and is discussing with the government on the project investment and financing model. Meanwhile, the Company will also actively seek other high-quality highway projects to continuously supplement the assets for its principal business, and enhance the sustainable profitability and competitiveness.

In addition to upgrading and consolidating the core business of toll highway, the Company actively explores relevant investment opportunities in the general environmental protection industry so as to strive for greater rooms for the long-term development of the Group. Supported by the national environmental protection policy, the general environmental protection industry has a relatively large room for development. The Group will focus on developing sub-segments including water environment treatment, solid waste treatment, organic waste treatment, industrial hazardous waste and clean energy under the general environmental protection industry. The Group has established entities such as Environmental Company and the New Energy Department as market-oriented platforms to expand its environmental-protection-industry-related business and planned to invest funds in the relevant projects.

SZ International Subscribers intends to subscribe for no less than 39% of the total number of H Shares in the Issuance. SZ International is the controlling shareholder of the Company. The intended subscription by SZ International Subscribers of the H Shares issued by the Company indicates its good expectations for the future of the Company and its support for the long-term development of the Company. Besides the SZ International Subscribers, the Company will strive to introduce long-term or strategic investors in the Issuance.

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## LETTER FROM THE BOARD

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In conclusion, the Board believes that the Issuance is in line with the actual situation of the Company, and that the use of proceeds is in line with the relevant national policies and the overall development direction of the Company, which is beneficial for the Company to optimise its capital structure, lower the financial cost, enhance its profitability continuously, further expand the room for financing of the Company in the future and enhance the core competitiveness of its main business. The Board is of the view that the Issuance is in line with the long-term development strategy of the Company, and the price and relevant transaction conditions of the Issuance will be determined in accordance with the relevant laws and regulations and the principle of market fairness, and the connected transactions involved in the Issuance are in line with the principles of fairness, equity and reasonableness, and will not impair the interests of the Company and other Shareholders, in particular the minority Shareholders.

### 5. CHOICE OF FINANCING METHODS AND FINANCING PLANS OF THE COMPANY

The H Shares of the Company was listed in 1997. Since the listing of A Shares of the Company in 2001, except for the increase of 70,326 ordinary Shares through the exercise of a small amount of conversion option attached to convertible bonds in 2009, the share capital of the Company has not been increased. Since 2016, the Board has been granted a general mandate to issue H Shares of up to 20% of the total issued H Shares of the Company in every annual general meeting, i.e., approximately 149,500,000 Shares in aggregate, representing 49.8% of the capped amount of the H Shares to be issued pursuant to the Issuance. Having considered various factors, the Company has not issued any H Shares under the abovementioned general mandate. As approved by the Shareholders in 2017, the Company submitted the issuance application to the CSRC in 2018 for the public issue of A Share convertible bonds in the total amount of no more than RMB2.2 billion, the proceeds of which would all be used for the investment and construction of the Outer Ring Expressway. On December 23, 2019, having considered the Company's actual circumstances and external environment, the Board resolved to terminate the issuance of A Share convertible bonds and the issuance application from the CSRC was withdrawn. The construction of the Outer Ring Expressway was financed by bank loan at present. Since the Company mainly relied on debt financing to raise funds in the past, the debt level of the Company has been rising. As of 30 September 2019, the Company's total asset-liability ratio (measured by total liabilities divided by total assets) was approximately 52.8%, and the net asset interest-bearing debt ratio (calculated as the total interest-bearing liabilities divided by the total equity of shareholders) was approximately 80.3%. If the Company continues to rely solely on debt financing to raise funds, it is expected the level of debt of the Company will rise further in the future. The ever-rising level of debt would lead to an increase of financial risk of the Company, which will raise the cost of debt financing and increase the difficulty and cost in financing, forcing the Company to forgo investment opportunities of high-quality projects and miss the development opportunity in the industry, which is not in the long-term interests of Shareholders. Based on the reasons stated above, the Board believes that in addition to debt financing, the Company needs to raise funds through equity financing at this stage to promote the development of the Company.

The Board had considered and made comparison among other approaches of equity financing, including H Share rights issues and public offerings. Rights issues or public offering of H Shares will not achieve the purpose of attracting long-term or strategic new investors, and will also likely involve higher transaction costs (such as underwriting fees).

After careful consideration of the above reasons, the Board believes that as compared with the aforementioned financing options, the Issuance is more efficient, with more controllable financing costs, and can better meet the proposed use of proceeds as set out in the paragraph headed 'Reasons for the Issuance and the Proposed Use of Proceeds'. Although the Issuance will cause potential dilutive effects on our existing Shareholders, including minority Shareholders, the Issuance will provide the Company with long-term capital for a variety of purposes, strengthen the Company's investment and financing ability and expand the Company's shareholding base with high-quality investors, which will thus benefit all Shareholders, including the existing Shareholders of the Company. The Company believes that the benefits of the Issuance of H Shares will outweigh the potential dilutive effect on the existing Shareholders of the Company.

The Company expects that the Issuance of H Shares will not meet all capital needs of the Company in



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## LETTER FROM THE BOARD

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	As of the Latest Practicable Date		Immediately after the completion of the Issuance	
	Number of Shares	Approximate percentage in total issued Shares of the Company	Number of Shares	Approximate percentage in total issued Shares of the Company
SZ International (A Shares)	1,066,239,887	48.89%	1,066,239,887	42.98%
SZ International (H Shares)	58,194,000	2.67%	175,194,000	7.06%
Total interests of SZ				
International	1,124,433,887	51.56%	1,241,433,887	50.04%
Other Shareholders				
(A Shares)	367,030,439	16.83%	367,030,439	14.80%
Other Shareholders				
(H Shares)	689,306,000	31.61%	872,306,000	35.16%
Total A Share	1,433,270,326	65.72%	1,433,270,326	57.78%
Total H Share	747,500,000	34.28%	1,047,500,000	42.22%
Total Shares	2,180,770,326	100.00%	2,480,770,326	100.00%

### 9. PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Upon completion of the Issuance, the registered share capital and the shareholding structure of the Company will change and therefore the articles regarding the registered capital, total number of shares, the shareholding structure, the corporate history and other corresponding terms in the Articles of Association will be required to be amended to reflect the relevant changes. The Board proposes to seek the approval of the Shareholders at the EGM and Class Meetings to authorise the Board or its authorised person(s) to make consequential amendments to relevant provisions in the Articles of Association based on the results of the Issuance.

### 10. IMPLICATIONS UNDER THE LISTING RULES

The Issuance will be made under the Specific Mandate and will constitute a variation of class rights of the holders of A Shares and H Shares under the Articles of Association. Pursuant to the Articles of Association and Rule 19A.38 of the Listing Rules, the Company will convene the EGM and the Class Meetings to seek approval from Shareholders in relation to the granting of the Specific Mandate in order to conduct the Issuance (including the grant of authority to the Board and its authorised person(s) to handle matters in relation to the Issuance at their sole discretion).

As of Latest Practicable Date, SZ International indirectly holds 1,066,239,887 A Shares and 58,194,000 H Shares, representing approximately 51.56% of the issued Shares of the Company. SZ International is the controlling shareholder of the Company, and SZ International and its subsidiaries are the connected persons of the Company. In accordance with the Listing Rules, the SZ International Subscription will constitute a connected transaction of the Company and is subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The EGM will be convened to seek the approval of the Shareholders for the SZ International Subscription.



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## LETTER FROM THE BOARD

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SZ International and its associates shall abstain from voting on the Issuance and the SZ International Subscription at the EGM and the Class Meetings.

Mr. Hu Wei, Ms. Chen Yan, Mr. Fan Zhi Yong and Mr. Chen Kai, all being Directors who hold positions in SZ International and/or its subsidiaries (excluding the Group), have declared their interests in accordance with the requirements, and did not participate in the voting of the relevant resolutions in the meeting of the Board. The relevant resolutions of the meeting of the Board were unanimously adopted by other Directors.

The Company has established the Independent Board Committee comprising all independent Directors to advise Independent Shareholders on the SZ International Subscription and the transactions contemplated thereunder. None of the members of the Independent Board Committee has material interests in the SZ International Subscription and the transactions contemplated thereunder.

The Independent Financial Adviser has been appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the SZ International Subscription and the transactions contemplated thereunder.

### 11. INFORMATION OF SZ INTERNATIONAL AND THE COMPANY

#### **SZ International**

SZ International and its subsidiaries are principally engaged in the investment, construction and operation of logistics 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.

### 12. THE EGM AND THE CLASS MEETINGS

The Company will convene the EGM and the Class Meetings at the conference room of the Company at Podium Levels 2-4, Jiangsu Building, Yitian Road, Futian District, Shenzhen, the PRC at 10 a.m. on Tuesday, 31 March 2020. The notice of the EGM and the notice of HCM are set out on pages 43 to 46 and pages 47 to 50 of this circular. The notices of the EGM and the HCM, the reply slips and the proxy forms for the EGM and the HCM have been published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and despatched to the shareholders of the Company on 14 February 2020. For notice of ACM, please refer to the notice dated 14 February 2020 separately published by the Company.

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## LETTER FROM THE BOARD

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If you intend to attend the EGM and/or the Class Meetings either in person or by proxy, you are required to complete and return the reply slips for the meetings to the H share registrar of the Company, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, on or before 11 March 2020.

Whether or not you are able to attend the EGM or the Class Meetings, you are advised to read the notice of the EGM and the notices of the Class Meetings carefully and to complete the proxy forms that has been despatched to you in accordance with the instructions printed thereon. H Shareholders must return the proxy form to the H share registrar of the Company, Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, while A Shareholders must return the proxy forms to the Company at Podium Levels 2-4, Jiangsu Building, Yitian Road, Futian District, Shenzhen, the PRC, no later than 24 hours before the time appointed for convening the EGM and the Class Meetings or any adjourned meeting thereof. Completion and return of the proxy forms will not preclude you from attending and voting at the EGM, the Class Meetings or any adjourned meeting(s) thereof in person if you so wish.

### **13. CLOSURE OF REGISTER OF HOLDERS OF H SHARES**

The register of holders of H Shares will be closed from Saturday, 29 February 2020 to Tuesday, 31 March 2020, both days inclusive, during which period no transfer of H Shares will be effected. In order to qualify for attending the EGM and the Class Meetings, all transfer documents of H Shares accompanied by the relevant share certificates must be lodged with the Hong Kong Registrars Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 28 February 2020.

### **14. VOTING BY POLL**

Pursuant to Rule 13.39(4) of the Listing Rules and the Articles of Association, the EGM and the Class Meetings shall vote by poll on the resolutions set out in the notice of the EGM and the Class Meetings. Therefore, all resolutions as set out in the notice of EGM and the Class Meetings will be voted by poll. The poll results will be published on the HKEXnews website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk) and the website of the Company at [www.sz-expressway.com](http://www.sz-expressway.com) upon the conclusion of the EGM and the Class Meetings.

SZ International and its associates are required to abstain from voting on the following resolutions, and may not be entrusted by other Shareholders to vote: (1) the resolution of the proposed Issuance under the Specific Mandate (including the grant of authority to the Board and its authorised person(s) to handle matters in relation to the Issuance at their sole discretion); (2) the resolution in relation to the SZ International Subscription.

Save as mentioned above, to the best knowledge, information and belief of the Directors, having made all reasonable enquiries, no other Shareholder has a material interest in any of the above resolutions and has to abstain from voting at the EGM and the Class Meetings on the above resolutions.

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## LETTER FROM THE BOARD

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### 15. RECOMMENDATION

The Directors consider that the Issuance and SZ International Subscription and the transactions contemplated thereunder are in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend that Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the Issuance and SZ International Subscription and the transactions contemplated thereunder and at the relevant Class Meetings in respect of the Issuance.

Having taken into account the advice of Independent Financial Adviser, the Independent Board Committee considers that the terms of the SZ International Subscription and the transactions contemplated thereunder are on normal commercial terms, fair and reasonable and in the interests of the Group and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM in respect of the SZ International Subscription.

### 16. FURTHER INFORMATION

Your attention is drawn to (1) the letter from the Independent Board Committee set out on pages 18 to 19 of this circular, containing its recommendation in respect of the SZ International Subscription and the transactions contemplated thereunder; and (2) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 20 to 38 of this circular, containing its recommendation in respect of the SZ International Subscription and the transactions contemplated thereunder.

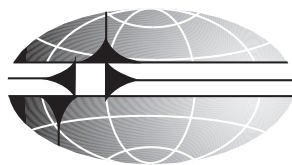
Your attention is drawn to the additional information set out in the appendix to this circular.

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)**

27 February 2020

*To the Independent Shareholders*

### **CONNECTED TRANSACTION – SZ INTERNATIONAL SUBSCRIPTION**

Dear Sirs or Madams,

We refer to the circular of Shenzhen Expressway Company Limited (the “**Company**”) dated 27 February 2020 (the “**Circular**”), of which this letter forms a part. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the SZ International Subscription and the transactions contemplated thereunder, details of which are set out in the “Letter from the Board” in the Circular. Octal Capital Limited has been appointed as the Independent Financial Adviser with our approval to advise the Independent Board Committee and the Independent Shareholders in this regards.

We wish to draw your attention to the “Letter from the Board” on pages 4 to 17 of the Circular and the “Letter from Octal Capital” on pages 20 to 38 of the Circular and the additional information contained in the appendix to this Circular.

Having taken into account, among other things, the principal factors and reasons considered by, and the advice of, the Independent Financial Adviser as set out in the “Letter from Octal Capital” contained in the Circular, we concur with the view of the Independent Financial Adviser and consider that although the connected transaction in relation to the SZ International Subscription is not in the ordinary and usual course of business of the Group, the terms of the SZ International Subscription are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned and that the SZ International Subscription and the transactions contemplated thereunder is in the interest of the Company

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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and the Shareholders as a whole. Accordingly, we recommend you to vote in favour of the resolutions to be proposed at the EGM for approving the SZ International Subscription and the transactions contemplated thereunder.

Yours faithfully,  
**CAI Shu Guang**  
**WAN Siu Wah Wilson**  
**CHEN Xiao Lu**  
**BAI Hua**  
*Independent Board Committee*

The following is the summary of advice from independent Shareholders in respect of the proposed transaction in this circular.

金融有限公司

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## LETTER FROM OCTAL CAPITAL

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constitute a connected transaction of the Company and is subject to the announcement, reporting and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The EGM will be convened to seek the approval of the Shareholders for the SZ International Subscription.

We, Octal Capital, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the SZ International Subscription in this regard. We are not connected with the directors, chief executive or substantial shareholders of the Company or SZ International or any of their respective subsidiaries or their respective associates and do not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group as at the Latest Practicable Date and therefore are considered suitable to give independent advice to the Independent Board Committee and the Independent Shareholders. During the last two years, there was no engagement between us and the Company, SZ International or any of their respective subsidiaries or associates. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Group or the directors, chief executive and substantial shareholders of the Company or SZ International or any of its subsidiaries or their respective associates.

In formulating our opinion, we have relied on the accuracy of the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also relied on our discussion with the Directors and management of the Company regarding the Group and the SZ International Subscription, including the information and representations contained in the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors and management of the Company in the Circular were reasonably made after due enquiry. We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have no reason to suspect that any material facts have been omitted or withheld from the information contained or opinions expressed in the Circular nor to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and management of the Company. We have not, however, conducted an independent in-depth investigation into the business and affairs of the Group, SZ International and their respective associates nor have we carried out any independent verification of the information supplied.

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

In arriving at our opinion regarding the terms of the SZ International Subscription and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

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## LETTER FROM OCTAL CAPITAL

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### 1. Background of and reasons for the SZ International Subscription and use of proceeds

#### 1.1 I a C a

The Company is a joint stock company incorporated in the PRC with limited liability, the H Shares of which are listed on the Main Board of the Stock Exchange. The principal activities of the Group are the investment, construction, operation and management of toll highways and roads, as well as other urban and transportation infrastructure facilities in the PRC.

Set out below is a summary of the consolidated financial information of the Company for the two years ended 31 December 2017 and 2018 and the nine months ended 30 September 2019 as extracted from the Company's annual report for the year ended 31 December 2018 (the "2018 Annual Report") and the Company's third quarterly report for the nine months ended 30 September 2019 (the "2019 3Q Report"):

	For the nine months ended 30 September		For the year ended 31 December	
	2019 unaudited RMB'000	2018 unaudited RMB'000	2018 audited RMB'000	2017 audited RMB'000 (restated)
Turnover	4,185,408	4,140,160	5,807,108	5,210,398
Profit for the year/period attributable to the owners of the Company	2,150,981	1,520,750	3,440,051	1,383,988

	As at 30 September		As at 31 December	
	2019 unaudited RMB'000	2018 audited RMB'000	2018 audited RMB'000	2017 audited RMB'000 (restated)
Intangible assets	23,764,835	23,596,233	27,463,982	
Cash at bank and on hand <sup>Note</sup>	4,781,225	4,226,691	4,259,695	
Total assets	43,556,953	41,100,850	44,014,985	
Total liabilities	23,011,233	21,561,097	28,225,487	
Net assets	20,545,720	19,539,753	15,789,498	

*Note:*

After deducting the restricted deposits for projects, the Group's available cash amounted to approximately RMB1,884.6 million, RMB2,580.8 million and RMB3,039.5 million as at 31 December 2017, 31 December 2018 and 30 September 2019, respectively.



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## LETTER FROM OCTAL CAPITAL

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*For the year ended 31 December 2017 and 2018*

As noted from above, the turnover of the Group amounted to approximately RMB5,807.1 million for the year ended 31 December 2018, representing a year-on-year increase of approximately 11.5% when compared to the year 2017. The increase was mainly due to (i) the consolidation of two new subsidiaries into the Group's financial statement; (ii) the growth of traffic volume and the further improvement of road networks; and (iii) the addition of entrusted construction management projects during the year ended 31 December 2018. The Group has recorded a net profit attributable to the owners of the Company of approximately RMB3,440.1 million, representing a year-on-year increase of approximately 148.6% when compared to the year 2017. The increase was mainly due to the increase in gains on disposal of assets amounted to approximately RMB2,227.1 million.

As regards the financial position of the Group, the total assets of the Group decreased from approximately RMB44,015.0 million as at 31 December 2017 to RMB41,100.9 million as at 31 December 2018. Such decrease was mainly attributable to the decrease in intangible assets as a result of the transfer of the rights (the "**Transfer of Rights**") of Nanguang Expressway, Yanba Expressway and Yanpai Expressway to Shenzhen Transportation Bureau in the end of 2018. On the other hand, the total liabilities of the Group decreased from approximately RMB28,225.5 million as at 31 December 2017 to RMB21,561.1 million as at 31 December 2018. Such decrease was mainly attributable to the decrease in non-current liabilities as a result of the Transfer of Rights. For details of the Transfer of Rights, please refer to the announcements of the Company dated 2 December 2015, 1 February 2016 and 12 November 2018, the circular of the Company dated 12 January 2016 and the 2018 Annual Report. The gearing ratio of the Group (as measured by total interest-bearing liabilities over the total shareholders' equity) decreased from approximately 137.3% as at 31 December 2017 to approximately 71.3% as at 31 December 2018.

*For the nine months ended 30 September 2018 and 2019*

As noted from the above table, the turnover of the Group was approximately RMB4,185.4 million for the nine months ended 30 September 2019, representing an increase of approximately 1.1% when compared to the corresponding nine-month period in 2018. The increase in turnover was mainly due to (i) the increase in toll revenue attributable to the growth of traffic volume and the continuous optimization of surrounding road networks; (ii) the increase in delivered units of the property development project; and (iii) the revenue from the two newly acquired energy subsidiaries. The Group has recorded a net profit attributable to the owners of the Company of approximately RMB2,151.0 million for the nine months ended 30 September 2019, representing an increase of approximately 41.4% when compared to the same period in 2018. The increase was mainly due to (i) the increase in investment income; and (ii) the decrease in income tax expenses as a result of certain deferred income tax assets in respect of partially deductible losses and impairment of road assets of the Group incurred in previous periods.

As regards the financial position of the Group, the total assets of the Group increased from approximately RMB41,100.9 million as at 31 December 2018 to RMB43,557.0 million as at 30 September 2019. Such increase was mainly attributable to the increase in accounts receivables and contract assets, both as a result of the acquisition (the “**Acquisition**”) of Nanjing Wind Power Technology Co., Ltd (“**Nanjing Wind Power**”) and Baotou Nanfeng Wind Power Technology Co., Ltd. (“**Baotou Nanfeng Wind Power**”). On the other hand, the total liabilities of the Group increased from approximately RMB21,561.1 million as at 31 December 2018 to RMB23,011.2 million as at 30 September 2019. Such increase was mainly attributable to the increase in other payables and notes payable, both as a result of the Acquisition. The gearing ratio of the Group (as measured by total interest-bearing liabilities over the total shareholders’ equity) increased from approximately 71.3% as at 31 December 2018 to approximately 80.3% as at 30 September 2019.

## *1.2 Back a R a s s I s s a c a S Z I a a S b s c*

As stated in the Letter from the Board, proceeds from the Issuance (after deducting the related expenses) will be used for the investment on principal businesses, including highways and environmental protection, the repayment of debts of the Company and its controlling subsidiaries, and the supplement of working capital. The Issuance is beneficial for the Company’s future business development, and will optimise the Company capital structure, lower the financial cost, enhance its profitability continuously, further expand the room for financing of the Company in the future and enhance the core competitiveness of its main business, which is in line with the long-term development strategies of the Company and is in the interest of the Company and all Shareholders as a whole.

Since 2018, the PRC has successively issued a series of policies, such as the Work Plan for State-owned Enterprises Reform “Double-Hundred Action” (《國企改革「雙百行動」工作方案》), the Outline Development Plan for Guangdong-Hong Kong-Macao Greater Bay Area (《粵港澳大灣區發展規劃綱要》), and the Opinion of the State Council on Supporting the Building of Shenzhen into a Pilot Demonstration Zone of Socialism with Chinese Characteristics (《國務院關於支持深圳建設中國特色社會主義先行示範區的意見》), bringing historic opportunities to the reform of state-owned enterprises and regional development. On 12 March 2019, the Department of Transportation of Guangdong Province issued an article namely “Development of highway transportation network in Greater Bay Area” (《構築大灣區快速交通路網》), which

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## LETTER FROM OCTAL CAPITAL

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According to the 2018 Annual Report, the Company plans to (i) develop construction management, operation management of urban transport infrastructure, as well as the relevant upstream and downstream industry such as design and construction; and (ii) develop general-environmental protection business such as wind power, water environment remediation, waste power generation and solid waste treatment. Moreover, as stated in the Letter from the Board, the Group has commenced construction of several projects, including Outer Ring Expressway, Coastal Phase II and etc, such that the Group is required to invest substantial fund in these projects to facilitate future business growth of the Group. The Company is still actively carrying out the preliminary work on the reconstruction and expansion of Jihe Expressway in Shenzhen, and has reached a preliminary consensus with the government management departments at all levels on the overall construction plan. In addition, in order to promote the development and construction of the Shenzhen-Shantou Special Cooperation Zone, the Company is carrying out preliminary works such as feasibility studies on highway infrastructure construction in accordance with the requirements of the government, and is discussing with the government on the investment and financing model. The Company also explores relevant investment opportunities in the general environmental protection industry so as to strive for greater rooms for the long-term development of the Group. As the proceeds from the Issuance will be allocated to both the toll highway business and the environmental protection business, representing the core business and new growing business of the Group respectively, the Issuance is considered to be consistent with the long-term development strategies of the Group.

After consolidation of financial statements of Nanjing Wind Power and Baotou Nanfeng Wind Power as a result of the Acquisition, the Group recorded an increase in its gearing ratio. According to the 2019 3Q Report, the Group recorded total interest-bearing liabilities of approximately RMB16,490.6 million as at 30 September 2019, representing an increase of approximately 18.4% when compared to the total borrowings of the Group as at 31 December 2018. Given the increase in interest-bearing liabilities, the gearing ratio of the Group (as measured by total interest-bearing liabilities over the total shareholders' equity) increased from 71.3% as at 31 December 2018 to approximately 80.3% as at 30 September 2019. In order to avoid over relying on borrowings which would increase the financing costs of the Company and have an adverse impact on the business, operating results and financial condition of the Group, the Directors intend that the part of the proceeds will be used to repay part of the existing loan and replenish working capital of the Group, which would improve the financial and liquidity position of the Group. The Group has interest-bearing debt expiring in the next 24 months of approximately RMB5.7 billion with most of interest rates ranging from 1.3% to 6.56%, with interest rate of certain debt owed by newly acquired subsidiary of the Group up to 10.05%. The Issuance will therefore enable the Company to flexibly and prudently arrange funds for repayment for loans with higher interest and payment for investment development.

As the controlling shareholder of the Company, the intended subscription for H Shares by SZ International Subscribers under the Issuance indicates its confidence in the Company's future and support for the long-term development of the Company, which is beneficial for the Company to optimize its capital structure, reduce the financial risks and enhance the core

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## LETTER FROM OCTAL CAPITAL

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competitiveness of its main business. We are of the view that the participation of SZ International in the Issuance by way of the SZ International Subscription may boost confidence of external investors and facilitate the completion of the Issuance.

Having considered the above, we are of the view that there is a strong commercial rationale for the Issuance (including the SZ International Subscription) and the SZ International Subscription and the Issuance are in the interests of the Company and Shareholders as a whole.

### 2. Principal terms of the Issuance

The major terms and conditions of the Issuance are set out as follows:

**Subscribers** : The subscribers of the Issuance are eligible investors, including the SZ International Subscribers.

If the SZ International Subscribers eventually participate in the subscription for H Shares in the Issuance, the Issuance of H Shares to the SZ International Subscribers and non-connected eligible investors will need to be completed simultaneously.

**Method of pricing, Pricing Benchmark Date, issue price and adjustment of issue price** : The Pricing Benchmark Date of the Issuance is the date on which the H Shares placing/subscription agreement is entered into, and the issue price will be no lower than the higher of the following (If the SZ International Subscribers eventually subscribe for H Shares in the Issuance, the subscription price of H Shares for the SZ International Subscribers will be the same as the subscriptions by other non-connected eligible investors):

- (a) The latest audited net asset value (upon exchange rate conversion) per share of the Company attributable to ordinary shareholders of the parent company as at the Pricing Benchmark Date
- (b) 90% of the average trading price of the H Shares traded in the Stock Exchange during the 5 consecutive trading days preceding the Pricing Benchmark Date

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## LETTER FROM OCTAL CAPITAL

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of which, the average trading price of the H Shares in the 5 trading days preceding the Pricing Benchmark Date = the total trading amount of H Shares traded in the 5 trading days preceding the Pricing Benchmark Date/the total volume of H Shares traded in the 5 trading days preceding the Pricing Benchmark Date.

If any ex-right or ex-dividend event, including dividend distribution, bonus issue, rights issue, and conversion of capital reserve into share capital occurs during these 5 trading days, the trading prices of the Shares for the trading days preceding such adjustment shall be adjusted in view of such ex-right or ex-dividend event.

The net asset value per Share mentioned above will be adjusted based on any ex-right or ex-dividend event, including dividend distribution, bonus issue, rights issue, and conversion of capital reserve into share capital occurs during the period from the balance sheet date of the Company's latest audited financial report as of the date of the Pricing Benchmark Date to the date of the Issuance.

If any ex-right or ex-dividend event, including dividend distribution, bonus issue, rights issue, and conversion of capital reserve into share capital, occurs during the period from the Pricing Benchmark Date to the date of Issuance of H Shares, the issue price shall be adjusted in view of such ex-right or ex-dividend event.

The final issue price of the Issuance will be determined by the Board and its authorised person(s) based on the market conditions as authorised by the EGM and the Class Meetings.

### **Use of proceeds**

: Proceeds from the Issuance, after deducting the related costs and expenses, will be used for the investment on the principal businesses of the Company, including highways and environmental protection, the repayment of debts of the Company and its subsidiaries, and also for the supplement of working capital.

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## LETTER FROM OCTAL CAPITAL

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**Size of the Issuance** : Pursuant to the relevant laws and regulations and in light of the Company's financial status and investment plans, the total amount of H Shares to be issued will be not more than 300 million (inclusive). The final number of H Shares ultimately issued will be determined by the Board and its authorised person(s) based on the market conditions at that time as authorised by the EGM and the Class Meetings.

Prior to the Issuance, the total number of Shares in issue of the Company is 2,180,770,326 Shares, in which the number of H Shares is 747,500,000 Shares; upon the completion of the Issuances (assuming the maximum 300,000,000 new H Shares are issued), the total number of Shares in issue of the Company will be 2,480,770,326 Shares, in which the number of H Shares will be 1,047,500,000 Shares and the number of A Shares will remain unchanged as 1,433,270,326 Shares.

**Validity period of the resolutions** : The resolutions in relation to the Issuance shall be valid for 12 months from the date of approval at the EGM and the Class Meetings.

As mentioned above, the issue price (the "**Issue Price**") will be determined under the mechanism (the "**Mechanism**") which sets at a level not lower than the higher of (i) the latest audited net asset value (after the conversion of exchange rate) per share of the Company attributable to ordinary shareholders of the parent company as at the Pricing Benchmark Date; and (ii) 90% of the average trading price of the H Shares traded in the Stock Exchange during the 5 consecutive trading days preceding the Pricing Benchmark Date.

According to the Letter from the Board, the Board has made reference to the following factors in determining the Mechanism: (i) in accordance with Article 10 of Measures for the Supervision and Administration of State-owned Equity of Listed Companies in China (《上市公司國有股權監督管理辦法》) (SASAC, Ministry of Finance, and CSRC Order No. 36), the changes in state-owned shares of listed companies should be reasonably priced with reference to factors such as the price of publicly traded shares in the stock market, the price of comparable companies' shares and the net asset value per share. As the Company is a state-controlled listed company, the Board shall refer to the provisions of the abovementioned article and use no less than the net asset value per share as the pricing basis for the placing of H Shares; (ii) the unaudited net asset value per Share attributable to equity shareholders of the Company as of 30 September 2019 was approximately RMB8.25 per Share, representing approximately HK\$9.17 per H Share (the most recent net asset value per Share); (iii) the price-earning ratio and price-to-book ratio of the H Shares of the Company and other companies in the same industry; and (iv) the 10% discount falls within the normal discount range of

the subscription price in recent transactions of similar kind by companies listed in the Stock Exchange. To further assess the fairness and reasonableness of the Mechanism, we set out the following analysis for illustrative purposes:

( ) *R H S a s c*

We have researched and analysed the most recent net asset value per H Share and the historical closing price of the H Shares during the past twelve months and up to the Latest Practicable Date. The following share price chart of the Company illustrates the highest and lowest closing prices and the average closing price of the H Shares as quoted on the Stock Exchange during the period commencing from 1 January 2019 up to the Latest Practicable Date (the “**Historical Price Period**”):



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## LETTER FROM OCTAL CAPITAL

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Trading Date, representing a premium of approximately 12.0% over the Most Recent NAV Per H Share; and (ii) assuming the Pricing Benchmark Date is the Latest Practicable Date, the Issue Price would be the Most Recent NAV per H Share, as 90% of the average trading price of the H Shares during the five consecutive trading days preceding the Latest Practicable Date of approximately HK\$8.88 per H Share was below the Most Recent NAV per H Share.

Based on our findings above, we will use both the LTD Reference Issue Price and the Most Recent NAV per H Share for our analysis purpose.

( ) *C a s I s s P c s c a a b s*

Price-to-earnings multiple (the “**P/E Multiple**”) analysis and price-to-book multiple (the “**P/B Multiple**”) analysis are the most common approaches adopted by the investment community in valuing profit-generating entities and/or entities with positive net asset value. As the Company is principally engaged in toll highways and expressways business in the PRC, we used the following criteria to identify comparable companies in making the P/E Multiple analysis and P/B Multiple analysis: (i) companies which are listed on the Main Board of the Stock Exchange; (ii) companies which are principally engaged in toll highways and expressways business in the PRC (with more than 50% of revenue were generated from toll highways and expressways business in the last financial year); and (iii) are profit-making and have positive net asset value. Based on the aforesaid, we have identified 10 candidates. In addition, we note that the Group recognised an one-off gain on disposal of assets of approximately RMB2,227.1 million which arose mainly from the transfer of the Fee Entitlement Right for the year ended 31 December 2018 according to the 2018 Annual Report. We consider that such one-off gain on disposal is an one-off item not in the ordinary course of business (the “**Extraordinary Item(s)**”) of the Group. In order to minimize the impact of Extraordinary Items on P/E Multiple analysis and P/B Multiple analysis, we have adjusted the net income and net assets of the Group and those of the candidate comparable companies, by Extraordinary Items such as gain/loss on disposal of assets and impairment of assets (the “**Extraordinary Item Adjustment**”) but without adjusting for the impact from respective minority interest given



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that there were limited details disclosed in the financial reports. Hence, we have identified nine companies (the “**Industry Comparable(s)**”) for the purpose of the P/E Multiple analysis and P/B Multiple analysis. Summarized below are our relevant findings:

Company Name	Stock code	Principal business	Market	Market	Latest published audited profit attributable to owners of company (HK\$'million) <sup>Note 1, 2</sup>	Latest published net asset value attributable to owners of company (HK\$'million) <sup>Note 2, 3</sup>	P/E Multiple	P/B	P/E	P/B
			capitalisation preceding the Latest Trading Date (HK\$'million)	capitalisation preceding the Latest Practicable Date (HK\$'million)			preceding the Last Trading Date (times)	Multiple as at the Last Trading Date (times)	preceding the Latest Practicable Date (times)	Multiple preceding the Latest Practicable Date (times)
Sichuan Expressway Company Limited	107	principally engaged in the investment, construction, operation and management of infrastructure such as toll roads in the PRC	7,339	6,636	944	16,691	7.77	0.44	7.03	0.40
Jiangsu Expressway Company Limited	177	principally engaged in the investment, construction, operation and management of toll roads and bridges in the PRC	54,408	48,917	4,863	29,588	11.19	1.84	10.06	1.65
Zhejiang Expressway Co., Ltd.	576	principally engaged in investing in, developing and operating of high-grade roads in the PRC	30,966	27,579	3,868	22,001	8.00	1.41	7.13	1.25
Shenzhen Investment Holdings Bay Area Development Company Limited	737	focuses on initiation, promotion, development and operation of toll expressways and bridges in the PRC through its joint ventures established in the PRC	11,495	10,077	729	5,369	15.77	2.14	13.82	1.88
Anhui Expressway Company Limited	995	principally engaged in the operation and management of toll expressways and relevant business in the PRC	8,044	7,580	1,239	11,386	6.49	0.71	6.12	0.67
Yuexiu Transport Infrastructure Limited	1052	principally engaged in investment, operation and management of toll expressways and bridges in the PRC	11,461	10,909	1,171	11,511	9.78	1.00	9.31	0.95
Qilu Expressway Company Limited	1576	continuing operations comprise expressway business, for the construction, maintenance, operation and management of expressway, and advertisement business in the PRC	18,685	17,372	454	3,890	41.16	4.80	38.27	4.47

## LETTER FROM OCTAL CAPITAL

Company Name	Stock code	Principal business	Market	Market	Latest published audited profit attributable to owners of company (HK\$'million) <sup>Note 1, 2</sup>	Latest published net asset value attributable to owners of company (HK\$'million) <sup>Note 2, 3</sup>	P/E Multiple	P/B	P/E	P/B
			capitalisation preceding the Last Trading Date (HK\$'million)	capitalisation Latest Practicable Date (HK\$'million)			preceding the Last Trading Date (times)	Multiple as at the Last Trading Date (times)	preceding the Latest Practicable Date (times)	Multiple preceding the Latest Practicable Date (times)
Chengdu Expressway Co., Ltd	1785	principally engaged in the operation, management and development of expressways in the PRC	3,561	3,246	462	3,499	7.71	1.02	7.03	0.93
Huayu Expressway Group Limited	1823	principally engaged in the construction, operation and management of an expressway in the PRC	380	371	77	388	4.96	0.98	4.85	0.96
					Maximum		41.16	4.80	38.27	4.47
					Minimum		4.96	0.44	4.85	0.40
					Average		12.54	1.59	11.51	1.46
					Median		8.00	1.02	7.13	0.96
The Company	548		22,397 <sup>Note 4</sup>	19,998 <sup>Note 5</sup>	1,358	17,521	16.62	1.28	14.84	1.14

Source: [www.hkex.com.hk](http://www.hkex.com.hk)

*Note:*

1. Latest published audited profit attributable to owners of company after the Extraordinary Item Adjustment
2. Latest published net asset value attributable to owners of company after the Extraordinary Item Adjustment
3. These are calculated by using the exchange rate of HK\$1 = RMB0.9
4. The market capitalisation of the Company is calculated by using the LTD Reference Issue Price
5. The market capitalisation of the Company is calculated by using the Most Recent NAV Per H Share

*On the Last Trading Date*

We noted that the P/E Multiples of the Industry Comparables on the Last Trading Date ranged from approximately 4.96 times to approximately 41.16 times and have an average of approximately 12.54 times and a median of approximately 8.00 times. The P/E Multiple of the Company based on the LTD Reference Issue Price was approximately 16.62 times. Upon comparison, we noted that the P/E Multiple of the Company based on the LTD Reference Issue Price was (i) within the range of the P/E Multiples of the Industry Comparables; and (ii) higher than the average of P/E Multiples of the Industry Comparables and the median of P/E Multiples of the Industry Comparables.

We noted that the P/B Multiples of the Industry Comparables preceding the Last Trading Date ranged from approximately 0.44 times to approximately 4.80 times and have an average of approximately 1.59 times and a median of approximately 1.02 times. The P/B Multiple of the Company based on the LTD Reference Issue Price was approximately 1.28 times. Upon comparison, we noted that the P/B Multiple of the Company based on the LTD Reference

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## LETTER FROM OCTAL CAPITAL

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Issue Price was (i) within the range of the P/B Multiples of the Industry Comparables; and (ii) lower than the average of P/B Multiples of the Industry Comparables but higher than the median of P/B Multiples of the Industry Comparables.

*On the Latest Practicable Date*

We noted that the P/E Multiples of the Industry Comparables on the Latest Practicable Date ranged from approximately 4.85 times to approximately 38.27 times and have an average of approximately 11.51 times and a median of approximately 7.13 times. The P/E Multiple of the Company based on the Most Recent NAV Per H Share was approximately 14.84 times. Upon comparison, we noted that the P/E Multiple of the Company based on the Most Recent NAV Per H Share was (i) within the range of the P/E Multiples of the Industry Comparables; and (ii) higher than the average of P/E Multiples of the Industry Comparables and the median of P/E Multiples of the Industry Comparables.

We noted that the P/B Multiples of the Industry Comparables preceding the Latest Practicable Date ranged from approximately 0.40 times to approximately 4.47 times and have an average of approximately 1.46 times and a median of approximately 0.96 times. The P/B Multiple of the Company based on the Most Recent NAV Per H Share was approximately 1.14 times. Upon comparison, we noted that the P/B Multiple of the Company based on the Most Recent NAV Per H Share was (i) within the range of the P/B Multiples of the Industry Comparables; and (ii) lower than the average of P/B Multiples of the Industry Comparables but higher than the median of P/B Multiples of the Industry Comparables.

( ) *Ma c a a b s s b s c s a s*

In addition to P/E Multiple and P/B Multiple, we also consider it is worthwhile to assess the Issue Price against the prevailing market trends. We have identified (to the best of our knowledge) a list of shares subscriptions/placements (the “**Transaction Comparable(s)**”) for issuing shares to connected person(s) using specific mandate as announced by companies listed on the Main Board of the Stock Exchange with announcement in the last twelve months up to the Latest Practicable Date. We consider that the terms of the comparable fund raising exercises are appropriate benchmarks to reflect the recent market sentiment and risk appetite of the investment community.

## LETTER FROM OCTAL CAPITAL

For each of the Transaction Comparables identified, we compared the premium/(discounts) of its subscription price or placing price over/(to) (i) the closing price on the respective last trading date; and (ii) the average closing price for the respective last five consecutive trading days up to and including the respective last trading date, summarised in the following table:

Date of announcement	Company name	Stock code	Subscription price (HK\$)	Gross proceeds (HK\$000)	Premium/(discount) over/to the closing price of the shares as at the respective last trading date (%)	Premium/(discount) over/to the average closing price of the shares during the respective last five consecutive trading days (%)
18/1/2019	Beijing Enterprises Water Group Limited	371	4.29	548,038	0.23	1.27
17/2/2019	IBO Technology Company Limited	2708	1.5	150,000	-6.25	-5.90
15/4/2019	Chong Kin Group Holdings Limited	1609	3.5	210,000	-8.00	-10.00
16/4/2019	Pearl Oriental Oil Limited	632	0.02	180,000	-83.61	-83.05
2/5/2019	ZH International Holdings Limited	185	0.38	1,564,794	11.76	7.34
23/5/2019	Alibaba Health Information Technology Limited	241	7.5	2,272,320	-2.34	-4.21
10/7/2019	Glory Sun Financial Group Limited	1282	0.25	1,000,000	-19.35	-21.88
16/7/2019	DTXS Silk Road Investment Holdings Company Limited	620	5.3873	599,000	-17.88	-15.00
19/7/2019	Colour Life Services Group Co., Limited	1778	5.22	119,830	-3.51	-6.95
21/7/2019	Zhenro Properties Group Limited	6158	4.95	1,211,542	-1.98	-3.51
27/9/2019	Global Bio-chem Technology Group Company Limited	809	0.108	132,690	-20.00	-23.70
29/11/2019	Shougang Concord International Enterprises Company Limited	697	0.3	28,000	-13.04	-15.25
8/1/2020	Sunway International Holdings Limited	58	0.1	14,900	25.00	24.07
19/1/2020	CT Vision (International) Holdings Limited	994	0.8	61,600	-21.57	-21.41
6/2/2020	China Finance Investment Holdings Limited	875	0.65	130,000	-31.60	-33.90
				<b>Maximum</b>	25.00	24.07
				<b>Minimum</b>	-83.61	-83.05
				<b>Average</b>	-9.30	-10.49
				<b>Median</b>	-3.51	-5.90
	<b>The Company</b>	548	10.27 <sup>Note 1</sup> 9.17 <sup>Note 3</sup>	3,081,000 <sup>Note 2</sup> 2,751,000 <sup>Note 4</sup>	-7.97 -6.71 <sup>Note 5</sup>	-10.00 -7.03 <sup>Note 5</sup>

Source: [www.hkex.com.hk](http://www.hkex.com.hk)

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## LETTER FROM OCTAL CAPITAL

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*Note:*

1. The Issue Price is based on the LTD Reference Issue Price
2. The expected gross proceeds of the Issuance is calculated by using the LTD Reference Issue Price multiplied by the number of H Shares to be issued under the Issuance
3. The Issue Price is based on the Most Recent NAV Per H Share
4. The expected gross proceeds of the Issuance is calculated by using the Most Recent NAV Per H Share multiplied by the number of H Shares to be issued under the Issuance
5. The discounts are calculated by using the closing price of the H Shares as at the Latest Practicable Date and the average 5-day closing price of the H Shares preceding the Latest Practicable Date respectively

From the above table, we noted that 12 out of the 15 Transaction Comparables had their subscription price or placing price at discount to the closing price of the respective last trading date and the respective last five consecutive trading days.

The LTD Reference Issue Price has the discount of approximately 7.97% over the closing price of the H Shares on the Last Trading Date and has the discount of approximately 10.00% over the average 5-day closing price of the H Shares preceding the Last Trading Date, both of which are lower than the average discount of the subscription price over the closing price on the last trading date of the Transaction Comparables and the average discount of the subscription price over the closing price of the shares during the last five consecutive trading days of the Transaction Comparables respectively.

The Most Recent NAV Per H Share has the discount of approximately 6.71% over the closing price of the H Shares on the Latest Practicable Date and has the discount of approximately 7.03% over the average 5-day closing price of the H Shares preceding the Latest Practicable Date, both of which are lower than the average discount of the subscription price over the closing price on the last trading date of the Transaction Comparables and the average discount of the subscription price over the closing price of the shares during the last five consecutive trading days of the Transaction Comparables respectively.

Although each of the Transaction Comparables may not be entirely comparable to the Issuance in terms of size of the subscription, use of proceeds, capital structure and financial position of company and other relevant criteria, we consider that the analysis on the Transaction Comparables is meaningful as the sample size is not too small and the Transaction Comparables can provide insight on the market practice and investors' risk appetite and preferences on similar fund raising exercises.

As mentioned above, under the Mechanism, the Issue Price will be set at a level not lower than the Most Recent NAV Per H Share which provides a floor for the Issue Price. In the event that the trading price of the H Shares on the Pricing Benchmark Date is (i) higher than the LTD Reference Issue Price, or (ii) lower than the LTD Reference Issue Price but above the Most Recent NAV Per H Share, the Issue Price will be set at least at 90% of the average trading price of the H Shares traded in the Stock Exchange, during the 5 consecutive trading days preceding the Pricing Benchmark Date, representing not more than 10% discount to the five-day average trading price preceding the Pricing Benchmark Date. Having considered that (i) the P/E Multiple and P/E Multiple of the Group derived by the Mechanism were generally higher than those of the Industry Comparables; and (ii) the 10% discount under the Mechanism

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## LETTER FROM OCTAL CAPITAL

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was within the range of discount of the subscription price over the closing price of the Transaction Comparables as well as below the average of the Transaction Comparables. In forming our opinion, we have considered the results of the above comparisons and analysis together with all other factors stated in this letter as a whole.

Based on above, we are of the view that the Mechanism for determining the Issue Price as at the Pricing Benchmark Date and the terms under the Mechanism, including 90% of the average trading price of the H Shares during the 5 consecutive trading days preceding the Pricing Benchmark Date and the Most Recent NAV Per H Share, are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### 3. Financial effects of the Issuance on the Group

#### *Cas*

According to the consolidated cash-flow statement in the 2019 3Q Report and 2018 Annual Report, the Group had cash and cash equivalents as at 30 September 2019 of approximately RMB3,039.5 million, while the balance was approximately RMB2,580.8 million as at 31 December 2018. Upon completion of the Issuance (the “**Completion**”) and save for the expenses in relation to the Issuance, the cash position of the Group will be improved as the Issuance will increase the cash and cash equivalents by approximately RMB2,772.9 million (assuming the Issue Price being based on the LTD Reference Issue Price). Accordingly, the cash position, net current assets and current ratio of the Company are expected to be improved upon Completion.

#### *Ea s*

Save for the expenses in relation to the Issuance, the Issuance will not have any immediate material impact on the earnings of the Company. However, taking into account the proceeds from the Issuance will be mainly used for (i) investment in principal businesses, including highways and environmental protection, which may have positive impact on the revenue of the Group in the future; and (ii) repayment of debts of the Group, which may decrease the interest expenses of the Group in the future, the Issuance may have positive impact on earnings of the Group in the future.

#### *N Ass Va*

According to the 2019 3Q Report and 2018 Annual Report, the net asset value attributable to the owners of the Company as at 30 September 2019 was approximately RMB17,995.8 million, while the net asset value as at 31 December 2018 was approximately RMB17,387.1 million. Upon Completion and save for the expenses in relation to the Issuance, the net asset value attributable to the owners of the Company will increase as the Issuance would increase the cash balance of the Company.

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## LETTER FROM OCTAL CAPITAL

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*G a*

According to the 2019 3Q Report and 2018 Annual Report, the gearing ratio of the Group as at 30 September 2019, as derived by total interest-bearing liabilities over the total shareholders' equity of the Group as at 30 September 2019, was approximately 80.3%, while gearing ratio as at 31 December 2018 was approximately 71.3%. Upon Completion, assuming the total debt of the Group would remain the same, the total assets of the Group would be increased. Thus, the gearing level of the Group will decrease upon Completion.

Based on the above, the Issuance would have an overall positive effect on the future earnings of the Group and the financial position of the Group in terms of cashflow, net asset value, and gearing upon completion. On such basis, we are of the view that the Issuance is in the interests of the Company and the Shareholders as a whole.

#### **4. Potential dilution effect on the shareholding of the Company**

As set out in the table showing the shareholdings changes of the Company under the section headed "Effect of the Proposed Issuance and SZ International Subscription on the Shareholding Structure of the Company" as contained in the Letter from the Board, the shareholding of the existing public Shareholders (other than SZ International) as at the Latest Practicable Date was approximately 48.4%. The H Shares issued under the Issuance, assuming that the number of new H Shares issuable is 300 million H Shares, represent approximately 13.8% of the existing issued share capital of the Company as at the Latest Practicable Date and 12.1% of the issued share capital of the Company as enlarged by the issue of the H Shares in the Issuance. Assuming that SZ International Subscribers will subscribe 39% of the Shares issued under the Issuance, being 117,000,000 H Shares, and there are no other changes to the total issued share capital of the Company other than the Issuance from the date of Latest Practicable Date to the date of the completion of the Issuance, the shareholdings of the existing public Shareholders will be diluted from approximately 48.4% to 42.6%.

Having considered the reasons stated in details in the section headed "Background of and Reasons for the Issuance and the SZ International Subscription" above in this letter, in particular, the following:

- (a) the Company has a strong commercial rationale for the Issuance (where SZ International Subscription forms part) to support the principal business for its long-term development and improve its financial position; and
- (b) the SZ International Subscription will provide funding to the Group and will also allow SZ International to maintain its controlling stake over the Company to lead the Company in the future,

we are of the opinion that the shareholding dilution to the Independent Shareholders is acceptable so far as the Independent Shareholders are concerned.

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## LETTER FROM OCTAL CAPITAL

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### RECOMMENDATION

After taking into account the above principal factors and reasons, we consider that the SZ International Subscription was entered into on normal commercial terms and the terms of the SZ International Subscription are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and Shareholders as a whole, but it is not conducted in the ordinary and usual course of business of the Company due to the nature of such transaction. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to, and we recommend the Independent Shareholders to, vote in favour of the resolution to approve the SZ International Subscription.

Yours faithfully,  
For and on behalf of  
**Octal Capital Limited**  
**Alan Fung**      **Louis Chan**  
*Managing Director*      *Director*

*Note:*

Mr. Alan Fung has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2003. Mr. Fung has more than 24 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong. Mr. Louis Chan has been a responsible officer of Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities since 2008. Mr. Chan has more than 17 years of experience in corporate finance and investment banking and has participated in and completed various advisory transactions in respect of mergers and acquisitions, connected transactions and transactions subject to the compliance to the Takeovers Code of listed companies in Hong Kong.



## **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 of Latest Practicable Date, the interests or short positions of the Directors, the Supervisors or the Chief Executive in the Shares, underlying Shares and debentures of the Company or any of its

*I s s a S e I a a :*

Name	Share options unexercised as at the		Nature of Interests	Capacity
	Latest Practicable Date <sup>(1)</sup>			
Hu Wei	1,080,722	Personal	Beneficial owner	
Liao Xiang Wen <sup>(2)</sup>	423,789	Family interests	Beneficial owner	
Chen Yan	524,989	Personal	Beneficial owner	
Fan Zhi Yong	648,433	Personal	Beneficial owner	
Chen Kai	580,177	Personal	Beneficial owner	

*Note:*

(1) The share option scheme 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. On 24 June 2019, Shenzhen International adjusted the exercise price and quantity of the outstanding options. The exercise price was adjusted from HK\$11.904 per share to HK\$11.000 per share.

(2) The interests are owned by the spouse of Liao Xiang Wen and Fan Zhi Yong respectively, both Directors.

Saved as disclosed above, as of Latest Practicable Date, none of the Directors, the Supervisors or the Chief Executive had interests or short positions defined above.

**3. COMPETING INTEREST**

As of 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 of 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 2018, 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 2018, the date to which the latest published audited consolidated accounts of the Group have been made up.

**6. LITIGATION**

As of 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 of the Latest Practicable Date.

**8. EXPERT**

- (a) The following are the qualifications of the expert who has given opinion or advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Octal Capital Limited	a licensed corporation to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

- (b) As of the Latest Practicable Date, Octal Capital 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.
- (c) As of the Latest Practicable Date, Octal Capital was not interested, directly or indirectly, in any assets which had since 31 December 2018 (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.
- (d) Octal Capital Limited 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.

**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):

- (a) the letter from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 18 to 19 of this circular;

- (b) the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 20 to 38 of this circular;
- (c) the written consent referred to in the section headed “Expert” of this Appendix; and
- (d) this circular.

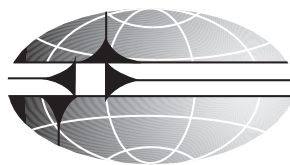
**10. LANGUAGE**

In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

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## 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)**

### **NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING 2020**

**Notice is hereby given** that the First Extraordinary General Meeting 2020 (the “EGM”) of Shenzhen Expressway Company Limited (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 10 a.m. on Tuesday, 31 March 2020 to consider and, if thought fit, pass the following resolutions:

#### **SPECIAL RESOLUTION**

1. To consider and approve the resolution in relation to the non-public issuance of H shares individually:

1.01 Type and nominal value of Shares:

The type of Shares to be issued under the Issuance is overseas listed foreign shares (H Shares), with par value of RMB1.00 each;

1.02 Method and timing of issuance:

The Issuance will be made by way of non-public issue to specific subscribers pursuant to the Specific Mandate granted by the Shareholders. The Issuance will be implemented by the Company in due course within the validity period of the approval and upon obtaining approvals from relevant regulatory authorities including the CSRC and the approval of listing from the Stock Exchange for the Issuance;

1.03 Method of subscription:

The subscribers of the Issuance will make a one-off subscription in cash for the Issuance of H Shares;

1.04 Subscribers:

The subscribers of the Issuance are eligible investors, including the SZ International Subscribers;

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## NOTICE OF THE EGM

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1.05 Size of the Issuance:

Pursuant to the relevant laws and regulations and in light of the Company's financial status and investment plans, the total amount of H Shares to be issued will be not more than 300 million (inclusive). The final number of H Shares ultimately issued will be determined by the Board and its authorised person(s) based on the market conditions at that time;

1.06 Method of pricing, pricing benchmark date, issue price and adjustment of issue price:

The Pricing Benchmark Date of the Issuance is the date on which the H Shares placing/ subscription agreement is entered into, and the issue price will be no lower than the higher of the following (adjusted in view of any ex-right or ex-dividend events): (1) the latest audited net asset value (upon exchange rate conversion) per share of the Company attributable to ordinary shareholders of the parent company as of the Pricing Benchmark Date; and (2) 90% of the average trading price of the H Shares traded in the Stock Exchange during the 5 consecutive trading days preceding the Pricing Benchmark Date. The final issue price of the Issuance will be determined by the Board and its authorised person(s) based on the market conditions;

1.07 Use of proceeds:

Proceeds from the Issuance, after deducting the related costs and expenses, will be used for the investment on the principal businesses of the Company, including highways and environmental protection, the repayment of debts of the Company and its subsidiaries, and also for the supplement of working capital;

1.08 The arrangement for accumulated undistributed profits before the completion of the Issuance:

The Company's undistributed profits accumulated prior to the Issuance shall be shared by all the Shareholders of the Company after the completion of Issuance;

1.09 Place of listing:

The H Share to be issued under the Issuance will be listed and traded on the Main Board of the Stock Exchange in accordance with the relevant rules;

1.10 Validity period of the resolutions:

The resolutions in relation to the Issuance shall be valid for 12 months from the date of approval at the EGM and the Class Meetings;

1.11 Grant of authority:

The Board and the its authorised person(s) for all the powers necessary to deal with and complete all the matters in relation to the Issuance.

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## NOTICE OF THE EGM

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### ORDINARY RESOLUTION

2. To consider and approve the resolution in relation to the connected/related transaction contemplated under the non-public issuance of H Shares.

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

Shenzhen, the PRC, 14 February 2020

*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 28 February 2020 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 11 March 2020, 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 29 February 2020 to 31 March 2020 (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 28 February 2020.

#### **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. 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.

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## NOTICE OF THE EGM

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#### 4. 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.

#### 5. Unless otherwise defined herein or the context otherwise requires, capitalised terms used herein shall have the same meanings as defined in the announcement of the Company dated 10 January 2020.

#### 6. Other matters

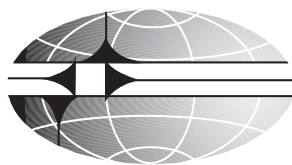
- i. The duration of the EGM is expected not to exceed one day. Shareholders or proxies who attend the EGM shall arrange for transport, food, accommodation and other relevant expenses at their own cost.
- ii. Address of Hong Kong Registrars Limited (for share transfer):  
Shops 1712-16, 17th Floor, Hopewell 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 3332  
Fax: (86) 755 – 8285 3411



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## NOTICE OF THE HCM

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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)**

#### NOTICE OF THE FIRST CLASS MEETING 2020 OF HOLDERS OF H SHARES

**Notice is hereby given** that the First Class Meeting 2020 of the Holders of H Shares (the “HCM”) of Shenzhen Expressway Company Limited (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 after 10 a.m. on Tuesday, 31 March 2020 (immediately after the conclusion of the First Class Meeting 2020 of the Holders of A Shares of the Company to be held on the same date or adjournment) to consider and, if thought fit, pass the following resolutions:

#### SPECIAL RESOLUTION

1. To consider and approve the resolution in relation to the non-public issuance of H shares individually:

1.01 Type and nominal value of Shares:

The type of Shares to be issued under the Issuance is overseas listed foreign shares (H Shares), with par value of RMB1.00 each;

1.02 Method and timing of issuance:

The Issuance will be made by way of non-public issue to specific subscribers pursuant to the Specific Mandate granted by the Shareholders. The Issuance will be implemented by the Company in due course within the validity period of the approval and upon obtaining approvals from relevant regulatory authorities including the CSRC and the approval of listing from the Stock Exchange for the Issuance;

1.03 Method of subscription:

The subscribers of the Issuance will make a one-off subscription in cash for the Issuance of H Shares;

1.04 Subscribers:

The subscribers of the Issuance are eligible investors, including the SZ International Subscribers;

1.05 Size of the Issuance:

Pursuant to the relevant laws and regulations and in light of the Company's financial status and investment plans, the total amount of H Shares to be issued will be not more than 300 million (inclusive). The final number of H Shares ultimately issued will be determined by the Board and its authorised person(s) based on the market conditions at that time;

1.06 Method of pricing, pricing benchmark date, issue price and adjustment of issue price:

The Pricing Benchmark Date of the Issuance is the date on which the H Shares placing/ subscription agreement is entered into, and the issue price will be no lower than the higher of the following (adjusted in view of any ex-right or ex-dividend events): (1) the latest audited

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## NOTICE OF THE HCM

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### 1.11 Grant of authority:

The Board and the its authorised person(s) for all the powers necessary to deal with and complete all the matters in relation to the Issuance.

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

Shenzhen, the PRC, 14 February 2020

*Notes:*

#### **1. Eligibility for attending the HCM**

Shareholders of the Company whose names appear on the registers of holders of H shares of the Company at the close of business on 28 February 2020 shall have the right to attend the HCM after complying with the necessary registration procedures.

#### **2. Registration procedures for attending the HCM**

- i. Shareholders intending to attend the HCM should deliver to the Company, on or before 11 March 2020, either in person, by post or by fax, the reply slip (together with any required registration documents) for attending the HCM.
- 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 29 February 2020 to 31 March 2020 (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 HCM 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 28 February 2020.

#### **3. Proxy**

- i. Holders of H shares entitled to attend and vote at the HCM 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 H shares of the Company, the written authorisation or authorisation documents which have been notarised together with the completed proxy form must be delivered to Hong Kong Registrars Limited, at Floor 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time of the holding of the HCM.
- iii. Shareholder or his proxy should produce identity proof when attending the HCM.

#### **4. 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 HCM on the resolutions set out in the notice of the HCM will be taken by poll.

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## NOTICE OF THE HCM

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5. Unless otherwise defined herein or the context otherwise requires, capitalised terms used herein shall have the same meanings as defined in the announcement of the Company dated 10 January 2020.
6. **Other matters**
- i. The duration of the HCM is expected not to exceed one day. Shareholders or proxies who attend the HCM 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