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

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

**If you have sold or transferred** all your shares in **Shenzhen Expressway Company Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was affected 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)**

**CONNECTED TRANSACTION**  
**ENTRUSTED CONSTRUCTION MANAGEMENT AGREEMENT IN**  
**RELATION TO GUANGSHEN COASTAL EXPRESSWAY SHENZHEN SECTION**  
**AND**  
**PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

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

***Hercules***  
**Hercules Capital Limited**

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A letter from the Independent Board Committee is set out on pages 13 to 14 and a letter from Hercules Capital is set out on pages 15 to 26 of this circular.

A notice convening an extraordinary general meeting (“EGM”) of Shenzhen Expressway Company Limited (“Company”) to be held at the conference room of the Company at Podium Levels 2-4, Jiangsu Building, Yitian Road, Futian District, Shenzhen, the People’s Republic of China at 10:00 a.m. on 24 November 2011 (Thursday) is set out on pages 32 to 34 of this circular. A proxy form is enclosed. Whether or not you intend to attend the said meeting, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the registrar of H shares of the Company, Hong Kong Registrars Limited, at Floor 17M, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong (for the holders of H shares) or to the Company at Podium Levels 2-4, Jiangsu Building, Yitian Road, Futian District, Shenzhen, the People’s Republic of China (for the holders of domestic shares) as soon as possible and in any event not less than 24 hours before the time appointed for the holding of the relevant meeting. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting(s) should you so wish.

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## DEFINITIONS

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

“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Audit Bureau”	深圳市審計局政府投資審計專業局 (the Bureau of Professional Auditing of Governmental Investment of the Bureau of Audit of the Shenzhen Municipal)
“Board”	the board of Directors
“Budgeted Costs”	the construction budget of Coastal Expressway (Shenzhen Section) as approved by 深圳市發展和改革委員會 (the Shenzhen Municipal Commission of Development and Reform)
“Coastal Expressway (Shenzhen Section)”	廣深沿江高速公路深圳段 (Guangshen Coastal Expressway Shenzhen Section)
“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
“controlling shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at the conference room of the Company at Podium Levels 2-4, Jiangsu Building, Yitian Road, Futian District, Shenzhen, the PRC at 10:00 a.m. on 24 November 2011 (Thursday) for the purpose of considering and, if thought fit, approval of, the Entrusted Construction Management Agreement and the transaction contemplated thereunder and the proposed amendments to the Articles of Association

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## DEFINITIONS

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“Entrusted Construction Management”	the management of the construction of Coastal Expressway (Shenzhen Section) entrusted by the Project Company to the Company pursuant to the Entrusted Construction Management Agreement
“Entrusted Construction Management Agreement”	委託管理(代建)合同 (Entrusted Construction Management Agreement) entered into by the Project Company and the Company dated 9 September 2011
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee, comprising Mr. Lam Wai Hon, Ambrose, Mr. Ting Fook Cheung, Fred, Mr. Wang Hai Tao and Mr. Zhang Li Min, all being independent non-executive Directors, formed to consider the terms of the Entrusted Construction Management Agreement and the transaction contemplated thereunder
“Independent Financial Adviser” or “Hercules Capital”	Hercules Capital Limited, a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Entrusted Construction Management Agreement and the transaction contemplated thereunder
“Independent Shareholders”	Shareholders other than SIHCL and its associates (including Shenzhen International and its associates)
“Investment Control Amount”	the amount used to calculate the bonuses or penalties for construction costs control, which is based on the Budgeted Costs of Coastal Expressway (Shenzhen Section) and adjusted according to the specific terms of Entrusted Construction Management Agreement when the prices of the major raw materials change or the construction works amendments occur, and the final amount of which is subject to audit by the Audit Bureau

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## DEFINITIONS

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“Latest Practicable Date”	30 September 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreement”	the entrusted management agreement entered into between the Company and SIHCL on 6 November 2009 in relation to the entrusted management of the Project Company
“PRC”	the People’s Republic of China excluding, for the purpose of this circular, Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Project Company”	深圳市廣深沿江高速公路投資有限公司 (Shenzhen Guangshen Coastal Expressway Investment Company Limited), a company established in the PRC with limited liability, principally engaged in the investment, construction and operation of Coastal Expressway (Shenzhen Section), and is a wholly-owned subsidiary of SIHCL
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong)
“Share(s)”	share(s) of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shenzhen International”	Shenzhen International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“SIHCL”	深圳市投資控股有限公司 (Shenzhen Investment Holdings Company Limited), a company established in the PRC with limited liability and is wholly-owned by 深圳市人民政府國有資產監督管理委員會 (Shenzhen Municipal State-owned Assets Supervision and Administration Commission)

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## DEFINITIONS

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“Supervisor(s)”	the supervisor(s) of the Company

*In this circular, the English names of certain PRC 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, amounts denominated in RMB have been converted into HK\$ at the rate of RMB0.82=HK\$1.00 for illustration purpose only. No representation is made to the effect that any amount in RMB or HK\$ have been, could have been or could be converted at the above rate or at any other rates or at all.*

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LETTER FROM THE BOARD

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

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

**(Stock Code: 00548)**

*Executive Directors:*

Mr. Yang Hai (*Chairman*)  
Mr. Wu Ya De

*Non-executive Directors:*

Mr. Li Jing Qi  
Mr. Zhao Jun Rong  
Mr. Tse Yat Hong  
Mr. Lin Xiang Ke  
Ms. Zhang Yang  
Mr. Chiu Chi Cheong, Clifton

*Independent Non-executive Directors:*

Mr. Lam Wai Hon, Ambrose  
Mr. Ting Fook Cheung, Fred  
Mr. Wang Hai Tao  
Mr. Zhang Li Min

*Legal Address:*

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

*Principal Place of Business in Hong Kong:*

Suites 2001-2005, 20th Floor,  
Jardine House,  
1 Connaught Place,  
Central, Hong Kong

4 October 2011

*To the Shareholders*

Dear Sirs or Madams,

**CONNECTED TRANSACTION  
ENTRUSTED CONSTRUCTION MANAGEMENT AGREEMENT IN  
RELATION TO GUANGSHEN COASTAL EXPRESSWAY SHENZHEN SECTION  
AND  
PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

**I. INTRODUCTION**

The purpose of this circular is to provide you with, among other things, (i) details of the Entrusted Construction Management Agreement and the transaction thereunder, the recommendation of the Independent Board Committee to the Independent Shareholders and the advice of the Independent Financial Adviser on the terms of the Entrusted Construction Management Agreement and the transaction contemplated thereunder and other information as required under the Listing Rules; (ii)

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## LETTER FROM THE BOARD

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the proposed amendments to the Articles of Association; and (iii) a notice of the EGM at which resolutions will be proposed to consider and, if thought fit, approve the Entrusted Construction Management Agreement and the transaction contemplated thereunder and the proposed amendments to the Articles of Association.

### **II. CONNECTED TRANSACTION – ENTRUSTED CONSTRUCTION MANAGEMENT AGREEMENT IN RELATION TO GUANGSHEN COASTAL EXPRESSWAY SHENZHEN SECTION**

Reference is made to the joint announcement of the Company and Shenzhen International dated 6 November 2009. Pursuant to the Master Agreement, the Company was entrusted by SIHCL to manage the Project Company which includes the construction management of Coastal Expressway (Shenzhen Section), with detailed terms of the entrusted construction management to be further negotiated and agreed upon by the Project Company and the Company and subject to the approval by Shenzhen Municipal Government.

The Board and the boards of directors of Shenzhen International jointly announced on 9 September 2011 that the Company and the Project Company entered into the Entrusted Construction Management Agreement.

#### **The Entrusted Construction Management Agreement**

***Date:***

9 September 2011

***Parties:***

Entrusting Party:                      The Project Company

The Project Company is a wholly-owned subsidiary of SIHCL and is principally engaged in the investment, construction and operation of Coastal Expressway (Shenzhen Section).

Entrusted Party:                      the Company

***Entrusted Construction Management:***

Pursuant to the Entrusted Construction Management Agreement, the Project Company has agreed to entrust the Company to manage the construction of Coastal Expressway (Shenzhen Section), the Company has agreed to undertake the management of construction of Coastal Expressway (Shenzhen Section) (including but not limited to, coordination of preliminary works, management of preliminary design works and construction drawings design and construction management during the preparation period, construction period as well as default liability period (缺陷責任期), etc.). The Project Company is responsible for timely payment of construction cost and entrusted construction service fee for the project.



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## LETTER FROM THE BOARD

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### *Entrusted Construction Service Fee:*

The entrusted construction service fee comprises the entrusted construction management fee and the performance-based bonuses or penalties (if any) under the provision of the Entrusted Construction Management Agreement. Such entrusted construction management fee and performance-based bonuses or penalties shall be finalised and audited by the Audit Bureau.

### *Entrusted construction management fee*

The entrusted construction management fee shall be 1.5% of the Budgeted Costs. With reference to the approved Budgeted Costs of RMB8,788,740,000 (approximately HK\$10,717,976,000) of Phase I of Coastal Expressway (Shenzhen Section) as at the Latest Practicable Date, the entrusted construction management fee is estimated to be approximately RMB131,830,000 (approximately HK\$160,768,000). The entrusted construction management fee shall be paid in cash by the Project Company in installments as follows:

- (i) 40% will be paid within 28 days upon signing of the Entrusted Construction Management Agreement or the commencement of the construction of Coastal Expressway (Shenzhen Section);
- (ii) 20% will be paid within 28 days upon the progress of the construction arrives 40% of the estimated total investment;
- (iii) 20% will be paid within 28 days upon the progress of the construction arrives 70% of the estimated total investment;
- (iv) 15% will be paid within 28 days after delivery and inspection of the construction works; and
- (v) the remaining balance will be paid within 28 days after expiry of the default liability period, completion of the final audit and verification of the entrusted construction management fee by the Project Company.

### *Performance-based bonuses or penalties*

The performance-based bonuses or penalties mainly comprise the bonuses or penalties for construction costs control, whereby the Company will be awarded or penalised by an amount based on 20% of the difference between the Investment Control Amount and the final-audited construction costs. The bonuses for construction costs control, which represents 20% of the amount of the Investment Control Amount exceeding the final-audited construction costs, if any, shall be paid in cash by the Project Company to the Company in installments as follows:

- (i) following the completion of the construction works of the road understructure and bridge culverts, 50% of the initial bonuses for construction costs control shall be paid within 30 days upon submission of preliminary summary of the construction costs of such construction works prepared by the Company, based on which the initial bonuses for construction costs control is calculated;

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## LETTER FROM THE BOARD

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- (ii) following the opening of relevant section of the road, the second installment of the bonuses shall be paid within 15 days upon completion of the audit by the Audit Bureau of the settlement amount of construction works, the aggregate of payments shall be 80% of the bonuses for construction costs control as calculated based on the settlement amount of construction works; and
- (iii) the remaining balance of the bonuses for construction costs control shall be paid within 15 days upon completion of the audit by the Audit Bureau of the final settlement amount of construction works.

If the final-audited construction costs exceed the Investment Control Amount, 20% of the overspent construction costs will be borne by the Company as penalties, which, theoretically speaking, has no ceiling on the amount of the penalties. Based on the past experience of the Company in construction management of roads and the pre-construction analysis on the construction of Costal Expressway (Shenzhen Section), the Directors are of the view that the construction costs are not likely to be overspent.

Save and except the bonuses or penalties for construction costs control, the Company will also be entitled to other bonuses (if any) or bear other penalties (if any) for quality control, safety management and construction period control pursuant to the terms of the Entrusted Construction Management Agreement. It is expected that other bonuses or penalties will not have material effect on the total amount of entrusted construction service fee.

The entrusted construction service fee may be subject to upward or downward adjustment due to factors such as construction works amendment, delays in construction and performance in fulfilling the Entrusted Construction Management Agreement by the Company. After taking into account of, among others, the terms of the Entrusted Construction Management Agreement and the scale of the Entrusted Construction Management, the Directors are of the view that the total entrusted construction service fee will not exceed RMB350,000,000 (approximately HK\$426,829,000), which is subject to the final audit by the Audit Bureau. If the total entrusted construction service fee is expected to exceed RMB350,000,000 (approximately HK\$426,829,000), the Company will publish a separate announcement and seek the approval of the Independent Shareholders in accordance with the requirements of the Listing Rules as and when appropriate.

***Conditions Precedent to the Entrusted Construction Management Agreement:***

The Entrusted Construction Management Agreement is conditional upon parties to the Entrusted Construction Management Agreement having respectively obtained all necessary or appropriate approvals and authorisation for the transaction contemplated under the Entrusted Construction Management Agreement, including but not limited to the independent shareholders' approval of both Shenzhen International and the Company.

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## LETTER FROM THE BOARD

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### *Guarantee of Contractual Performance:*

The Company will provide a guarantee of contractual performance in the amount of RMB200,000,000 (approximately HK\$243,902,000) in the form of letter of guarantee of contractual performance to be issued by a bank within 1 month after the signing of the Entrusted Construction Management Agreement. The Project Company will return the relevant letter of guarantee to the Company within 10 working days after the delivery and inspection of Phase I of the Coastal Expressway (Shenzhen Section).

### **Information of Coastal Expressway (Shenzhen Section)**

Guangshen Coastal Expressway is an expressway connecting Huangpu (黃埔) District, Guangzhou to Nanshan (南山) District, Shenzhen with a length of approximately 90 km and will be another major road passage between Guangzhou and Shenzhen as well as Guangdong and Hong Kong.

Coastal Expressway (Shenzhen Section) is the section of Guangshen Coastal Expressway in Shenzhen, extending from Dongbao River (東寶河), the boundary between Dongguan and Shenzhen, to Nanshan District, Shenzhen, and connecting with Shenzhen Western Corridor in the south. Coastal Expressway (Shenzhen Section) is a dual eight-lane expressway with a length of approximately 30.45 km. As at the Latest Practicable Date, the Budgeted Costs of Phase I of Coastal Expressway (Shenzhen Section) is RMB8,788,740,000 (approximately HK\$10,717,976,000) (excluding the ramp of airport interchange, the design of which is not determined yet, and traffic engineering and affiliated facilities). The construction of Phase I of Coastal Expressway (Shenzhen Section) is planned to be completed by 31 December 2012. When the construction budgets of the ramp of airport interchange, traffic engineering and affiliated facilities have been determined, such construction budgets will be submitted to 深圳市發展和改革委員會 (the Shenzhen Municipal Commission of Development and Reform) for approval.

### **Reasons for and Benefits of Entering into the Entrusted Construction Management Agreement**

Entrusted construction management of roads is an ordinary and usual course of business of the Company. By entering into the Entrusted Construction Management Agreement, the Company can further develop the business of entrusted construction management of roads and generate reasonable income and return by exporting its professional skills and extensive experience in the construction management of roads. Entering into the Entrusted Construction Management Agreement is in line with the Company's overall strategy in the investment, construction, operation and management of toll highways and roads.

The Board considers that the terms of the Entrusted Construction Management Agreement were arrived at after arm's length negotiation between the Project Company and the Company, entered into on normal commercial terms, and are fair and reasonable; and that the Entrusted Construction Management is in the interests of the Company and the Shareholders (including Independent Shareholders) as a whole. In arriving at the terms of the Entrusted Construction Management Agreement, the Company had taken into account of the scale of the Entrusted Construction Management and its past experience in construction management of roads.

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## LETTER FROM THE BOARD

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### **Review and Approval of the Entrusted Construction Management by the Company**

On 28 April 2011, the Board held the meeting to consider and approve the Entrusted Construction Management and the related matters. All of the 12 directors who were eligible to attend the meeting attended the meeting in person. Mr. Yang Hai, Mr. Li Jing Qi, Mr. Zhao Jun Rong, Mr. Tse Yat Hong and Mr. Lin Xiang Ke, the directors who held positions in Shenzhen International and/or its subsidiaries other than the Company, declared their interests according to the regulations and abstained from voting on the resolution in relation to the Entrusted Construction Management. The relevant resolution was unanimously passed by the remaining directors. In accordance with the regulatory requirements of the China Securities Regulatory Commission, the independent non-executive Directors had approved the presentation of the proposal of the Entrusted Construction Management to the Board for discussion prior to the meeting, and expressed their opinions in relation to the procedural compliance and fairness of the Entrusted Construction Management in the said board meeting.

### **Information of the Group**

The Group is principally engaged in the investment, construction, operation and management of toll highways and roads.

### **Implications Under the Listing Rules**

As at the Latest Practicable Date, the Company is a 50.889%-owned subsidiary of Shenzhen International, while SIHCL, in turn, is the controlling shareholder (as defined under the Listing Rules) of Shenzhen International indirectly holding approximately 48.59% of the issued share capital of Shenzhen International. The Project Company is a wholly-owned subsidiary of SIHCL, and thus, each of SIHCL and the Project Company is a connected person of the Company pursuant to Chapter 14A of the Listing Rules.

The transaction contemplated under the Entrusted Construction Management Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules, and is subject to, among other things, the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

### **Independent Board Committee and Independent Financial Adviser**

The Independent Board Committee (comprising all independent non-executive Directors) has been established to advise the Independent Shareholders in relation to the Entrusted Construction Management Agreement and the transaction contemplated thereunder. None of the members of the Independent Board Committees has any material interest in the Entrusted Construction Management Agreement and the transaction contemplated thereunder. A letter from the Independent Board Committee is set out on pages 13 to 14 of this circular.

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## LETTER FROM THE BOARD

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Hercules Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the Entrusted Construction Management Agreement and the transaction contemplated thereunder. A letter from Hercules Capital is set out on pages 15 to 26 of this circular.

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

In light of the acceptance of China Accounting Standards for Business Enterprises, China Standards on Auditing and Mainland audit firms by the Stock Exchange and in order to improve the efficiency of and reduce the cost of disclosure, for the financial year beginning on or after 1 January 2011, the Company will only prepare one set of financial statements in accordance with China Accounting Standards for Business Enterprises and arrange for such financial statements to be audited by a Mainland audit firm endorsed by China Ministry of Finance and China Securities Regulatory Commission. For details thereof, please refer to the circular of the Company dated 31 March 2011. Therefore, the Company needs to amend the requirements in the Articles of Association relating to the preparation of two sets of financial statements in accordance with both domestic accounting standard and accounting standards of the place of overseas listing.

The proposed amendments to the Articles of Association are set out in Appendix I to this circular. According to the Articles of Association, and related laws and regulations, such amendments will be subject to the consideration and approval by the Shareholders at the EGM as a special resolution.

The Articles of Association are written in Chinese without an official English version, and therefore, the English translation version in Appendix I to this circular is for reference only. In case of any inconsistency between the English and Chinese versions, the Chinese version shall prevail.

### IV. EGM

The Company will convene the EGM at the conference room of the Company at Podium Levels 2-4, Jiangsu Building, Yitian Road, Futian District, Shenzhen, the PRC at 10:00 a.m. on 24 November 2011 (Thursday), the notice of which is set out on pages 32 to 34 of this circular. Pursuant to Rule 13.39(4) of the Listing Rules, voting at the EGM will be taken by poll.

As at the Latest Practicable Date, Shenzhen International indirectly holds an aggregate of 1,109,775,887 Shares, representing approximately 50.889% of the total issued share capital of the Company, while SIHCL, in turn, is the controlling shareholder (as defined under the Listing Rules) of Shenzhen International indirectly holding approximately 48.59% of the issued share capital of Shenzhen International. SIHCL and its associates (including Shenzhen International and its associates) will abstain from voting at the EGM in respect of the resolution(s) approving the Entrusted Construction Management Agreement and the transaction contemplated thereunder. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, no other Shareholder is required to abstain from voting at the EGM in respect of the resolution(s) approving the Entrusted Construction Management Agreement and the transaction contemplated thereunder other than SIHCL and its associates (including Shenzhen International and its associates).

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## LETTER FROM THE BOARD

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The proxy form for use at the EGM is enclosed with this circular. Whether or not you intend to attend the EGM, you are requested to complete the proxy form in accordance with the instructions printed thereon and return the same to the registrar of H shares of the Company, Hong Kong Registrars Limited, Floor 17M, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong (for holders of H Shares) or to the Company at Podium Levels 2-4, Jiangsu Building, Yitian Road, Futian District, Shenzhen, the PRC (for holders of domestic Shares) as soon as possible and in any event not later than 24 hours before the time appointed for holding the EGM. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting(s) should you so wish.

### V. RECOMMENDATION

The Board (including all the independent non-executive Directors, whose views are set out in the letter from the Independent Board Committee) considers that the terms of the Entrusted Construction Management Agreement and the transaction contemplated thereunder are on normal commercial terms and are fair and reasonable, and the entering into of the Entrusted Construction Management Agreement and the transaction contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including all the independent non-executive Directors) recommends the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Entrusted Construction Management Agreement and the transaction contemplated thereunder.

The Board also considers that the proposed amendments to the Articles of Association are in the interests of the Company and the Shareholders as a whole and recommends the Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the amendments to the Articles of Association.

### VI. FURTHER INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter from Hercules Capital and the additional information set out in the appendices to this circular.

By Order of the Board of  
**Shenzhen Expressway Company Limited**  
**Yang Hai**  
*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)**

4 October 2011

*To the Independent Shareholders*

Dear Sirs or Madams,

**CONNECTED TRANSACTION**  
**ENTRUSTED CONSTRUCTION MANAGEMENT AGREEMENT IN**  
**RELATION TO GUANGSHEN COASTAL EXPRESSWAY SHENZHEN SECTION**

We have been appointed as members of the Independent Board Committee to advise you in respect of the terms of the Entrusted Construction Management Agreement and the transaction contemplated thereunder, details of which are set out in the letter from the Board in the circular of the Company dated 4 October 2011 (the "Circular") to the Shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the letter from Hercules Capital in respect of the terms of the Entrusted Construction Management Agreement and the transaction contemplated thereunder set out in the section "Letter from Hercules Capital" in the Circular.

**RECOMMENDATION**

Having taken into account the principal factors and reasons considered by Hercules Capital regarding the terms of the Entrusted Construction Management Agreement and the transaction contemplated thereunder and its conclusion and advice, we concur with the view of Hercules Capital and consider that the terms of the Entrusted Construction Management Agreement and the transaction contemplated thereunder are fair and reasonable so far as the Independent Shareholders

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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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are concerned and that the terms of the Entrusted Construction Management Agreement and the transaction contemplated thereunder are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolution(s) to be proposed at the EGM to approve the Entrusted Construction Management Agreement and the transaction contemplated thereunder.

Yours faithfully,

**Lam Wai Hon, Ambrose**

**Ting Fook Cheung, Fred**

**Wang Hai Tao**

**Zhang Li Min**

*Independent Board Committee*



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## LETTER FROM HERCULES CAPITAL

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*The following is the text of a letter of advice from the Independent Financial Adviser prepared for the purpose of inclusion in this circular, setting out its advice to the Independent Board Committee and the Independent Shareholders in respect of the Entrusted Construction Management Agreement and the transaction contemplated thereunder.*

### ***Hercules*** **Hercules Capital Limited**

1503 Ruttonjee House  
11 Duddell Street  
Central  
Hong Kong

4 October 2011

*To the Independent Board Committee  
and the Independent Shareholders*

Dear Sirs,

### **CONNECTED TRANSACTION ENTRUSTED CONSTRUCTION MANAGEMENT AGREEMENT IN RELATION TO GUANGSHEN COASTAL EXPRESSWAY SHENZHEN SECTION**

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the connected transaction contemplated under the Entrusted Construction Management Agreement, details of which are set out in the Letter from the Board contained in the circular dated 4 October 2011 issued by the Company to the Shareholders (the “Circular”), of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the Circular unless the context requires otherwise.

On 9 September 2011, the Company and the Project Company entered into the Entrusted Construction Management Agreement, pursuant to which the Project Company has agreed to entrust the Company to manage, and the Company has agreed to undertake the management of, the construction of Coastal Expressway (Shenzhen Section).

As at the Latest Practicable Date, the Company was owned as to approximately 50.889% by Shenzhen International, which, in turn, was owned indirectly as to approximately 48.59% by SIHCL. The Project Company is a wholly-owned subsidiary of SIHCL, and thus, an associate of SIHCL. Accordingly, each of SIHCL and the Project Company is a connected person of the Company under Chapter 14A of the Listing Rules. Therefore, the entering into of the Entrusted Construction

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## LETTER FROM HERCULES CAPITAL

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Management Agreement constitutes a connected transaction for the Company and is subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. By virtue of its material interest in the Entrusted Construction Management Agreement, SIHCL and its associates (including Shenzhen International and its associates) will abstain from voting on the resolution(s) approving the Entrusted Construction Management Agreement and the transaction contemplated thereunder at the EGM.

The Independent Board Committee, comprising all independent non-executive Directors, namely Mr. Lam Wai Hon, Ambrose, Mr. Ting Fook Cheung, Fred, Mr. Wang Hai Tao and Mr. Zhang Li Min, has been established to advise the Independent Shareholders in respect of the fairness and reasonableness of the Entrusted Construction Management. We, Hercules Capital Limited, have been appointed to advise the Independent Board Committee and the Independent Shareholders in connection with the Entrusted Construction Management, in particular as to whether it is conducted in the ordinary and usual course of business and the terms of which are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole, and give our recommendation on how to vote in relation to the Entrusted Construction Management Agreement and the transaction contemplated thereunder.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that such information and statements, and representations made to us or referred to in the Circular are true, accurate and complete in all material respects as of the date hereof and will continue as such at the date of the EGM. The Directors have collectively and individually accepted full responsibility for the Circular, including particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group and having made all reasonable enquiries have confirmed that, to the best of their knowledge and belief, the information contained in the 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 in the Circular misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reasons to suspect that any material information has been withheld by the Directors or the management of the Company, or is misleading, untrue or inaccurate, and consider that they may be relied upon in formulating our opinion. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group and the related subject of, and parties to, the Entrusted Construction Management Agreement. Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change this opinion and that we do not have any obligation to update, revise or reaffirm this opinion.

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion regarding the Entrusted Construction Management, we have considered the following principal factors and reasons:

#### **I. Background of, and reasons for, entering into the Entrusted Construction Management Agreement**

The Project Company, a wholly-owned subsidiary of SIHCL, is principally engaged in the investment, construction and operation of Coastal Expressway (Shenzhen Section). Guangshen Coastal Expressway is an expressway connecting Huangpu District, Guangzhou to Nanshan District, Shenzhen with a length of approximately 90 kilometers. Guangshen Coastal Expressway will be a major road passage between Guangzhou and Shenzhen as well as Guangdong and Hong Kong. Coastal Expressway (Shenzhen Section) is the section of Guangshen Coastal Expressway in Shenzhen, extending from Dongbao River, the boundary between Dongguan and Shenzhen, to Nanshan District, Shenzhen, and connecting with Shenzhen Western Corridor in the south.

Coastal Expressway (Shenzhen Section) is a dual eight-lane expressway with a length of approximately 30.45 kilometers. As at the Latest Practicable Date, the Budgeted Costs of Phase I of Coastal Expressway (Shenzhen Section), which excluded the ramp of airport interchange, the design of which has not been determined yet, and traffic engineering and affiliated facilities, amounted to RMB8,788.74 million (equivalent to approximately HK\$10,717.98 million). The construction of Phase I of Coastal Expressway (Shenzhen Section) is expected to be completed by 31 December 2012.

The Company is principally engaged in the investment, construction, operation and management of toll highways and roads. It has developed its entrusted construction management business since 2001. With the business capability cultivated and the professional skills and extensive experiences accumulated over the years, the Company has successfully completed five entrusted construction management projects and gained reputation in the entrusted construction management market. As at the Latest Practicable Date, the Company had two entrusted construction management projects on hand.

On 6 November 2009, the Company and SIHCL entered into the Master Agreement, pursuant to which the Company was entrusted by SIHCL to manage the Project Company which includes the construction management of Coastal Expressway (Shenzhen Section). The Master Agreement is a framework agreement which sets out the principles upon which detailed terms of the entrusted construction management are to be further negotiated and agreed upon by the Project Company and the Company and subject to the approval by Shenzhen Municipal Government.

On 9 September 2011, the Company and the Project Company entered into the Entrusted Construction Management Agreement, pursuant to which the Project Company has agreed to entrust the Company to manage, and the Company has agreed to undertake, the construction management of Coastal Expressway (Shenzhen Section).

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The Directors consider that the entering into of the Entrusted Construction Management Agreement shall enable the Company to further develop its entrusted construction management business, which is in line with the overall strategy of the Company in the investment, construction, operation and management of toll highways and roads, and generate reasonable income and return.

Having considered the above, we consider that the entering into of the Entrusted Construction Management Agreement is a commercial transaction conducted in the ordinary and usual course of business of the Company and is in the interests of the Company and the Shareholders as a whole.

### **II. Principal terms of the Entrusted Construction Management Agreement**

We were advised by the management of the Company that the terms of the Entrusted Construction Management Agreement were determined after arm's length negotiation between the Company and the Project Company with reference to the prevailing market principles and practices and had taken into account the scale of the Entrusted Construction Management and the Company's past experience in construction management of roads. The principal terms of the Entrusted Construction Management Agreement are summarized below:

#### **1. Responsibilities**

Pursuant to the Entrusted Construction Management Agreement, the Company will be responsible for the Entrusted Construction Management (including but not limited to coordination of preliminary works, management of preliminary design works and construction drawings design and construction management during the preparation period, the construction period as well as the default liability period) while the Project Company will be responsible for timely payment of construction cost and the entrusted construction service fee for the project.

#### **2. Entrusted Construction Service Fee**

The entrusted construction service fee comprises two elements, namely the entrusted construction management fee and the performance-based bonuses or penalties. Such fee is subject to upward or downward adjustment due to the factors such as construction works amendment, delay of construction and performance in fulfilling the Entrusted Construction Management Agreement by the Company and shall be finalized and audited by the Audit Bureau.

##### *A. Entrusted construction management fee*

The entrusted construction management fee payable by the Project Company to the Company shall be in amount equivalent to 1.5% of the construction budget of Coastal Expressway (Shenzhen Section) as approved by the Shenzhen Municipal Commission of Development and Reform. With reference to the Budgeted Costs of Phase I of Coastal Expressway (Shenzhen Section) of RMB8,788.74 million

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(equivalent to approximately HK\$10,717.98 million) approved by Shenzhen Municipal Commission of Development and Reform in 2009, the entrusted construction management fee is estimated to be approximately RMB131.83 million (equivalent to approximately HK\$160.77 million), which shall be paid in cash by the Project Company in the following manner:

- (a) 40% will be paid within 28 days upon signing of the Entrusted Construction Management Agreement or the commencement of the construction of Coastal Expressway (Shenzhen Section);
- (b) 20% will be paid within 28 days upon the progress of the construction arrives 40% of the estimated total investment;
- (c) 20% will be paid within 28 days upon the progress of the construction arrives 70% of the estimated total investment;
- (d) 15% will be paid within 28 days after delivery and inspection of the construction works; and
- (e) the remaining balance will be paid within 28 days after expiry of the default liability period, completion of the final audit and verification of the entrusted construction management fee by the Project Company.

*B. Performance-based bonuses or penalties*

According to the Entrusted Construction Management Agreement, the Company shall be entitled or subject to the performance-based bonuses or penalties, including the bonuses or penalties for construction costs control, quality control, safety management and construction period control.

- (a) Bonus or penalty for construction costs control

The bonus or penalty for construction costs control shall be equivalent to 20% of the difference between the actual construction costs incurred for Coastal Expressway (Shenzhen Section), which shall be audited by the Audit Bureau, and the Investment Control Amount, which is determined based on the Budgeted Costs of Coastal Expressway (Shenzhen Section) and shall be adjusted in accordance with the specific terms of the Entrusted Construction Management Agreement when the prices of the major raw materials change or the construction works amendments occur and the final amount of which is subject to the audit by the Audit Bureau.

The bonus for construction costs control (the “Cost Control Bonus”), if any, shall be paid in cash by the Project Company in the following manner:

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- (i) following the completion of the construction works of the road understructure and bridge culverts, 50% of the initial Cost Control Bonus shall be paid within 30 days upon the submission of the preliminary summary of the construction costs of such construction works prepared by the Company, based on which the initial Cost Control Bonus is calculated;
- (ii) following the opening of the relevant section of the road, the second installment of the Cost Control Bonus shall be paid within 15 days upon completion of the audit by the Audit Bureau of the settlement amount of construction works, the aggregate of payments shall be 80% of the Cost Control Bonus as calculated based on the settlement amount of construction works; and
- (iii) the remaining balance of the Cost Control Bonus shall be paid within 15 days upon completion of the audit by the Audit Bureau of the final settlement amount of construction works.

If the final audited construction costs exceed the Investment Control Amount, 20% of the overspent construction costs shall be borne by the Company as penalty for construction costs control.

(b) Penalty for quality control

If the construction works cannot meet the quality standard, the Company shall be subject to a penalty equivalent to 3% of the entrusted construction management fee, which shall be deducted directly from the payment of the entrusted construction management fee.

(c) Bonus or penalty for safety management

If there is any material accident for which the Company is responsible as agreed in the Entrusted Construction Management Agreement, the Company shall be subject to a penalty of RMB50,000 per accident occurred, which shall be deducted directly from the payment of the entrusted construction management fee. In the event that no accidents causing deaths occur throughout the construction period, the Company shall be entitled to a one-off bonus of RMB1.0 million.

(d) Bonus or penalty for construction period control

If the construction works completed ahead of the target construction timeframe, the Company shall be entitled to a bonus of RMB30,000 per day. On the other hand, if the construction works cannot meet the target construction timeframe, the Company shall be subject to a penalty of RMB30,000 for each day of delay. Such bonus or penalty shall be capped at a sum of RMB5.0 million.

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After taking into account of, among others, the terms of the Entrusted Construction Management Agreement and the scale of the Entrusted Construction Management, the Directors estimated that the total entrusted construction service fee would not exceed RMB350.00 million (equivalent to approximately HK\$426.83 million) and such amount shall be subject to the final audit by the Audit Bureau.

### **3. Guarantee of contractual performance**

Pursuant to the Entrusted Construction Management Agreement, the Company is required to provide a guarantee of contractual performance in the amount of RMB200 million (equivalent to approximately HK\$243.90 million) in the form of letter of guarantee of contractual performance to be issued by a bank to the Project Company within 1 month after the signing of the Entrusted Construction Management Agreement. The Project Company will return the relevant letter of guarantee to the Company within 10 working days after the delivery and inspection of Phase I of Coastal Expressway (Shenzhen Section).

## **III. Analysis on the terms of the Entrusted Construction Management Agreement**

### **1. Entrusted construction management fee**

We have reviewed the approval letter issued by Shenzhen Municipal Commission of Development and Reform in 2009 regarding the Budgeted Costs of Phase I of Coastal Expressway (Shenzhen Section) with detailed breakdown and were confirmed by the management of the Company that no further amendments have been made to the approved Budgeted Costs of Phase I of Coastal Expressway (Shenzhen Section) since 2009. We noted that the Budgeted Costs were prepared based on, among other things, the preliminary design of Phase I of Coastal Expressway (Shenzhen Section), methods of budget estimation and relevant pricing policies set out by Ministry of Transport, supplemental provisions adopted by Guangdong Province in relation to the methods of budget estimation and relevant pricing policies, collection and management of ocean usage fee set out by Ministry of Finance and State Oceanic Administration, standard pricing on engineering survey and design and tender agency services issued by National Commission of Development and Reform and Ministry of Construction and Shenzhen Construction Pricing Information.

We have also reviewed the Master Agreement and noted that the terms of the entrusted construction management fee under the Entrusted Construction Management Agreement are in line with the principles set out in the Master Agreement.

During the discussion with the management of the Company, we also understand that apart from the Entrusted Construction Management Agreement, four entrusted construction management agreements have been entered into by the Company since 2007, three of which were entered into with independent third parties of the Company (the

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“Comparable Agreements”), and the other one was entered into with a connected person of the Company. Given the Comparable Agreements were entered into by the Company with independent third parties, we are of the view that the terms of the Comparable Agreements are normal commercial terms and are appropriate to use them as references to form our view on the terms of the Entrusted Construction Management Agreement. We have reviewed the Comparable Agreements and noted that the basis of calculation and payment term of entrusted construction management fee of the three Comparable Agreements are substantially the same and such terms are summarized in Table 1 below:

**Table 1: Principal terms of the entrusted construction management fee under the Comparable Agreements**

Basis:	1.5% of the budgeted amount of the construction costs audited by the Audit Bureau
Payment schedule:	<ul style="list-style-type: none"><li>(i) 30% of the entrusted construction management fee will be paid within 28 days upon signing of the entrusted construction management agreement, but not later than the commencement of the construction;</li><li>(ii) 30% of the entrusted construction management fee will be paid within 28 days upon the progress of the construction arrives 50% of the estimated total investment;</li><li>(iii) 30% of the entrusted construction management fee will be paid within 28 days after delivery and inspection of the construction works; and</li><li>(iv) the remaining balance of the entrusted construction management fee will be paid within 28 days after expiry of the default liability period, completion of the final audit and verification of the entrusted construction management fee by the entrusting party.</li></ul>

As shown in Table 1 above, the calculation basis of the entrusted construction management fee under the Entrusted Construction Management Agreement is the same as that of the Comparable Agreements. Meanwhile, the payment schedule of the entrusted construction management fee under the Entrusted Construction Management Agreement is more favorable than that of the Comparable Agreements as the Company shall receive a higher percentage of progress payment under the Entrusted Construction Management Agreement. For example, the Company shall receive 40% of the entrusted construction management fee within 28 days upon signing of the Entrusted Construction Management



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Agreement or the commencement of the construction of Coastal Expressway (Shenzhen Section) and 60% of the entrusted construction management fee when the progress of the construction arrives 40% of the estimated total investment under the Entrusted Construction Management Agreement but it shall only receive 30% of the entrusted construction management fee within 28 days upon signing of the Comparable Agreements and 60% of the entrusted construction management fee when the progress of the construction arrives 50% of the estimated total investment under the Comparable Agreements. Furthermore, after the delivery and inspection of the construction works, the Company shall receive 95% of the entrusted construction management fee under the Entrusted Construction Management Agreement versus only 90% of the entrusted construction management fee shall be received by the Company under the Comparable Agreements.

### 2. Performance-based bonuses or penalties

The principal terms of performance-based bonuses or penalties under the Comparable Agreements are summarized in Table 2 below:

**Table 2: Principal terms of performance-based bonuses or penalties under the Comparable Agreements**

(a) *Bonus for construction costs control*

**Basis:** Based on the saved amount, being the difference between the budgeted construction costs (subject to adjustment for certain factors that are out of control of the entrusted party) and the actual amount of final accounts of the construction projects.

If the saved amount falls within 2.5% of the budgeted construction costs, the whole of the saved amount will be paid as bonus for construction costs control.

If the saved amount exceeds 2.5% of the budgeted construction costs, the bonus for construction costs control to be paid will be equivalent to 2.5% of the budget construction costs plus 20% of the portion of the saved amount above 2.5% of the budgeted construction costs.

**Payment schedule:** (i) 80% of the bonus for construction costs control shall be paid within 15 days upon completion of the audit by the Audit Bureau of the settlement amount of delivery; and

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- (ii) the remaining balance of the bonus for construction costs control shall be paid within 15 days upon completion of the audit by the Audit Bureau of the final accounts of completion.

(b) *Penalty for construction costs control*

**Basis:** If the actual amount of final accounts of the construction projects exceeds the budgeted construction costs (subject to adjustment for certain factors that are out of control of the entrusted party), the whole of the overspent amount shall have to be borne by the Company.

(c) *Penalty for quality control*

**Basis:** If the construction works cannot meet the quality standard, the Company shall be subject to a penalty equivalent to 3% of the entrusted construction management fee, which shall be deducted directly from the payment of the entrusted construction management fee.

(d) *Penalty for safety management*

**Basis:** If there is any material accident for which the Company is responsible as agreed in the Comparable Agreements, the Company shall be subject to a penalty of RMB50,000 per accident occurred, which shall be deducted directly from the payment of the entrusted construction management fee.

(e) *Penalty for construction period control*

**Basis:** If the construction works cannot meet the target construction timeframe, the Company shall be subject to a penalty of RMB30,000 or RMB5,000 for each day of delay (depending on the contract) and up to a maximum of RMB5.0 million or RMB100,000 or RMB900,000 (depending on the contract).

As compared to the terms of performance-based bonuses or penalties under the Comparable Agreements as set out in Table 2, the calculation basis of the Cost Control Bonus under the Entrusted Construction Management Agreement is less favorable than those under the Comparable Agreements as the Cost Control Bonus under the Entrusted Construction Management Agreement shall be less than the bonus for construction costs control under the Comparable Agreements even if the saved construction costs under both agreements are the same.

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On the other hand, the calculation basis of the penalty for construction costs control under the Entrusted Construction Management Agreement is more favorable than those of the Comparable Agreements as the penalty for construction costs control under the Entrusted Construction Management Agreement shall be less than those under the Comparable Agreements even if the overspent construction costs under both agreements are the same. Furthermore, the payment schedule of the Cost Control Bonus under the Entrusted Construction Management Agreement is more favorable than that of the Comparable Agreements as the Company shall receive an interim payment of 50% of the Cost Control Bonus upon the submission of the preliminary summary of the construction costs while such interim payment is absent under the Comparable Agreements.

Given that the excess amount of bonus for construction costs control under the Comparable Agreements over that of the Entrusted Construction Management Agreement is limited to 2.0% of the budgeted construction costs (i.e. 80% of 2.5% of the budgeted construction costs) while the excess amount of penalty for construction costs control under the Comparable Agreements over that of the Entrusted Construction Management Agreement is 80% of the overspent amount, which is unlimited, we consider that the effectiveness of reducing the potential loss arising from over-budget should outweigh the limited potential gain from excess bonus for construction costs control. Therefore, we consider that the calculation basis of the bonus or penalty for construction costs control under the Entrusted Construction Management Agreement is commercially justifiable and fair and reasonable so far as the Independent Shareholders are concerned.

We also noted that the penalties for safety management and construction period control under the Entrusted Construction Management Agreement are comparable to those of the Comparable Agreements as set out in Table 2 except that the penalty for construction period control of one of the Comparable Agreements is less than that of the penalty for construction period control under the Entrusted Construction Management Agreement owing to the difference in the scale of the entrusted construction management project.

### **3. Guarantee of contractual performance**

We were advised by the management of the Company that it is a common practice for a party entrusted for construction management to provide a guarantee of contractual performance to the entrusting party and we noted that such guarantee is also required in the Comparable Agreements. The performance guarantee provided by the Company to the Project Company under the Entrusted Construction Management Agreement represents approximately 2.3% of the Budgeted Costs while the performance guarantee provided by the Company to the entrusting parties is in the range of 0.8% and 1.3% of the total investment amount of the project under the Comparable Agreements.

We were confirmed by the management of the Company that there were no industrial guidelines or regulations which govern the provision of performance guarantee for entrusted construction projects in Shenzhen as at the Latest Practicable Date. For reference purposes, we have reviewed the 《廣州市政府投資建設項目代建制管理試行辦法》 (The Pilot Scheme for entrusted construction management of Government Construction Projects) issued by the Municipal Government of Guangzhou in June 2005 (the “Pilot Scheme”) and noted

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that the guarantee of contractual performance to be provided by the entrusted company to the project owner of government construction projects should be in the range of 3-10% of the total investment amount of the project. Although the Pilot Scheme is applicable in Guangzhou only, we consider it a relevant benchmark for assessing the performance guarantee under the Entrusted Construction Management Agreement in view of the close proximity and similarity in economic environment of Guangzhou and Shenzhen.

Given the performance guarantee provided by the Company to the Project Company under the Entrusted Construction Management Agreement is lower than the rates stipulated in the Pilot Scheme, which we consider it a relevant reference of normal commercial term, we are of the view that the performance guarantee provided by the Company to the Project Company under the Entrusted Construction Management Agreement is on normal commercial term even it is higher than those under the Comparable Agreements.

In view of all the factors mentioned above, we consider that the terms of the Entrusted Construction Management Agreement are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

#### **IV. Possible financial effect of the Entrusted Construction Management**

Undertaking the Entrusted Construction Management shall generate additional revenue and income to the Company as the Company shall be rewarded with the entrusted construction service fee. Although the Company may be subject to certain performance-based penalties under the Entrusted Construction Management Agreement, the Group expects that no substantial amount of penalties shall incur and the entering into of the Entrusted Construction Management Agreement shall have a positive financial impact on the Group after taking into account the past experience of undertaking similar entrusted construction management projects by the Company and the pre-construction analysis on the construction of Coastal Expressway (Shenzhen Section).

#### **RECOMMENDATION**

Having considered the abovementioned principal factors and reasons, we consider that (i) the Entrusted Construction Management is conducted in the ordinary and usual course of business of the Company and on normal commercial terms; and (ii) the terms of the Entrusted Construction Management Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Board Committee to advise the Independent Shareholders, as well as the Independent Shareholders, to vote in favour of the resolution(s) to approve the Entrusted Construction Management Agreement and the transaction contemplated thereunder at the upcoming EGM.

Yours faithfully,  
For and on behalf of  
**Hercules Capital Limited**

**Louis Koo**  
*Managing Director*

**Amilia Tsang**  
*Director*

The proposed amendments to the Articles of Association and their respective new and existing clauses are set out below:

Article No.	Existing articles	Proposed amendments
153	<p>The financial report of the Company shall be prepared in accordance with PRC accounting standards and legal regulations, and shall also be prepared in accordance with international accounting standards or the accounting standards of the place of overseas listing. If there are any material discrepancies in the financial report prepared in accordance with the two sets of accounting standards, such discrepancies shall be expressly stated in the notes to the financial report. For the purpose of the distribution of profits of the Company for the relevant accounting year, the lesser amount of profit after taxation stated in the said two financial reports shall prevail.</p>	<p>The financial report of the Company shall be prepared in accordance with PRC accounting standards and legal regulations, and shall also be prepared in accordance with international accounting standards or the accounting standards of the place of overseas listing. If there are any material discrepancies in the financial report prepared in accordance with the two sets of accounting standards, such discrepancies shall be expressly stated in the notes to the financial report. For the purpose of the distribution of profits of the Company for the relevant accounting year, the lesser amount of profit after taxation stated in the said two financial reports shall prevail. <b><u>If the applicable laws and/or listing rules of the place of overseas listing allow the financial statements prepared in accordance with the PRC accounting standards, it is not necessary for the Company to prepare its financial statements in accordance with international accounting standards or the accounting standards of the place of overseas listing.</u></b></p>
154	<p>Interim results or financial information published or disclosed by the Company shall be prepared in accordance with PRC accounting standards and legal regulations as well as international or Hong Kong accounting standards.</p>	<p>Interim results or financial information published or disclosed by the Company shall be prepared in accordance with PRC accounting standards and legal regulations as well as international <del>or Hong Kong</del> accounting standards <b><u>or the accounting standards of the place of overseas listing.</u></b> <b><u>If the applicable laws and/or listing rules of the place of overseas listing allow the interim results or financial information prepared in accordance with the PRC accounting standards, it is not necessary for the Company to prepare its interim results or financial information in accordance with international accounting standards or the accounting standards of the place of overseas listing.</u></b></p>

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

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

### *Long positions in ordinary shares of Shenzhen International*

<b>Name</b>	<b>Number of ordinary shares held</b>	<b>Approximately percentage of issued share capital of Shenzhen International</b>	<b>Nature of interests</b>	<b>Capacity</b>
Li Jing Qi	20,000,000	0.12%	Personal	Beneficial owner

*Interests in share option of Shenzhen International*

Name	Share option unexercised as at 1 January 2011 <sup>(Note)</sup>	Number of share option granted during 2011	Number of share option exercised during 2011	Share option unexercised as at the Latest Practicable Date	Nature of interests	Capacity
Yang Hai	14,300,000	Nil	Nil	14,300,000	Personal	Beneficial owner
Li Jing Qi	17,000,000	Nil	Nil	17,000,000	Personal	Beneficial owner
Zhao Jun Rong	14,300,000	Nil	Nil	14,300,000	Personal	Beneficial owner
Tse Yat Hong	14,300,000	Nil	Nil	14,300,000	Personal	Beneficial owner
Lin Xiang Ke	5,900,000	Nil	Nil	5,900,000	Personal	Beneficial owner
Zhong Shan Qun	14,300,000	Nil	Nil	14,300,000	Personal	Beneficial owner

*Note:* These share options were granted on 28 September 2010 and could be exercised during the period from 28 September 2012 to 27 September 2015 with the exercise price HK\$0.58 per share.

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

### 3. COMPETING INTEREST

As at the Latest Practicable Date, none of the Directors and their respective 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 CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors or Supervisors 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 has any direct or indirect interest in any assets which have been, since 31 December 2010, 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 2010, the date to which the latest published audited consolidated accounts of the Group have been made up.

**6. SERVICE CONTRACTS**

No service contracts that can be terminated within one year with compensation payable as a result (other than general statutory compensation) have been or proposed to be entered into between the Group and the Directors.

**7. 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>
Hercules Capital	a corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO

- (b) As at the Latest Practicable Date, Hercules Capital had no beneficially 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 of any member of the Group.
- (c) Hercules Capital has given and has not withdrawn its written consent to the issue of this circular, with inclusion of its letter and references to its name in the form and context in which it is included.
- (d) As at the Latest Practicable Date, Hercules Capital was not interested, directly or indirectly, in any assets which had since 31 December 2010 (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.
- (e) The letter from Hercules Capital dated 4 October 2011 is set out on pages 15 to 26 of this circular.



**8. 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 Suites 2001-2005, 20th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong up to and including 18 October 2011:

- (a) the Entrusted Construction Management Agreement; and
- (b) the Master Agreement.

**9. MISCELLANEOUS**

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

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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 2011

**Notice is hereby given** that the First Extraordinary General Meeting 2011 (“EGM”) of Shenzhen Expressway Company Limited (“Company”) will be held at the conference room of the Company at Podium Levels 2-4, Jiangsu Building, Yitian Road, Futian District, Shenzhen, the People’s Republic of China at 10:00 a.m. on 24 November 2011 (Thursday) to consider and, if thought fit, approve the following resolutions:

#### ORDINARY RESOLUTION

1. To consider and approve the resolution in relation to the Entrusted Construction Management Agreement and the transaction contemplated thereunder:
  - (1) the agreement (namely 《委託管理(代建)合同》, “Entrusted Construction Management Agreement”) dated 9 September 2011 between the Company as entrusted party and 深圳市廣深沿江高速公路投資有限公司 (Shenzhen Guangshen Coastal Expressway Investment Company Limited, “Project Company”) as entrusting party, pursuant to which the management of the construction of Guangshen Coastal Expressway Shenzhen Section was entrusted by the Project Company to the Company, and a copy of which has been produced to the meeting marked “A” and initialed by the Chairman of the meeting for the purpose of identification, and the transaction contemplated thereunder be and is hereby approved, confirmed and ratified; and
  - (2) the board of directors of the Company (“Board”) or any director of the Company duly authorised by the Board be and are hereby authorised to execute for and on behalf of the Company the Entrusted Construction Management Agreement and other related documents and to do all such acts and things as they consider necessary or expedient to implement or give effect to the the Entrusted Construction Management Agreement and the transaction contemplated thereunder.

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## NOTICE OF THE EGM

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### SPECIAL RESOLUTION

2. To consider and approve the proposal in relation to the amendments to the Articles of Association, and to authorise any one of executive directors or company secretary of the Company to deal with the related procedures such as approval, disclosure, registration and filing required for the amendment to the Articles of Association, and to conduct editorial changes relating to the proposed amendments according to the Company's actual situation and the amendment requirements as requested from time to time by the stock exchanges where the Company is listed and the relevant regulatory authorities (if any).

By order of the Board

**Yang Hai**

*Chairman*

Shenzhen, the PRC, 4 October 2011

*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 24 October 2011 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 4 November 2011, 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 25 October 2011 to 24 November 2011 (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 24 October 2011.

#### **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 domestic 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. For details of resolution no. 1 set out in this notice, please refer to the joint announcement and the circular of the Company dated 9 September 2011 and 4 October 2011 respectively. For details of resolution no. 2 set out in this notice, please refer to Appendix I to the circular of the Company dated 4 October 2011, which contains the “Proposed Amendments to the Articles of Association”.

5. **POLL**

Pursuant to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, voting at the EGM will be taken by poll.

6. **OTHER MATTERS**

- i. The duration of the EGM is expected not to exceed one day. Shareholders or proxies who attend the EGM shall arrange for 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, Jiangsu Building, Yitian Road,  
Futian District, Shenzhen, 518026, PRC  
Tel.: (86) 755 – 8285 3332  
Fax: (86) 755 – 8285 3411