



开卷语

Opening  
Message

GUIDANCE

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Dear Investors:

With the continuous advancement of the “14<sup>th</sup> Five-Year” strategy, the Company’s development has entered a new historical period. It is necessary to seize the construction opportunities of high-quality road networks and the rare development opportunities in the general-environmental protection industry, consolidate the development foundation and consolidate the position of the first-tier in the industry.

Shenzhen Expressway currently has a total share capital of approximately RMB2.18 billion. Since its listing, the Company has been rewarding its shareholders and has distributed cash dividends for 26 consecutive years, with a total amount of over RMB13.2 billion, which is 5.7 times of the total amount of funds raised through its dual listing. The cash dividend payout ratio for the past five years accounted for approximately 50% of the net profit in the consolidated statements and 80% of the net profit in the statements of the parent company. The Company intends to issue approximately 654 million A Shares. If the Issuance is successful, the Company’s investment and financing capabilities will be greatly improved, which will help the Company seize the investment and construction opportunities of high-quality road networks in advantageous regions and the environmental protection market opportunities under the “dual-carbon” strategy, and continue to create value for shareholders. In addition, the financial position and asset-liability structure of the Company will be effectively improved, and the solvency and risk resistance capacity will be further enhanced, which is conducive to a healthy development of the Company.

The Company will balance the long-term development and the current return requirements of shareholders. It is believed that with the understanding and support of shareholders, Shenzhen Expressway will develop more and better. We look forward to growing together with investors and sharing the Company’s development results.

Best regards,

Executive Director and President: Liao Xiang Wen



## Issuance of A Shares

### Introduction

- **Scale of Issuance:** not more than 654 million A Shares, representing 30% of the total share capital before the issue, and the proceeds to be raised shall not exceed RMB6.5 billion
- **Pricing Benchmark Date:** being the first day of the issuance period
- **Minimum Issue Price:** not less than 80% of the average trading price of the A Shares of the Company for the 20 trading days preceding the Pricing Benchmark Date (excluding the Pricing Benchmark Date, the same below) and the latest audited net asset value per share attributable to ordinary shareholders of the parent company before the Issuance, whichever is higher
- **Pricing Principle:** the issue price shall not be lower than the Minimum Issue Price, and the final issue price will be determined through negotiation with the sponsor (the lead underwriter) based on the results of market bidding in accordance with the relevant procedures and requirements
- **Specific Target:** not more than 35 specific target subscribers (including the controlling shareholder) who meet the requirements of the CSRC, among which, Shenzhen International, the controlling shareholder of the Company, plans to subscribe for certain shares through XTC Company with a subscription amount of not more than RMB1.51 billion. Upon completion of the subscription, Shenzhen International intends to hold not less than 45.00% in aggregate
- **Use of Proceeds:** 1) Outer Ring Phase III Construction (RMB4.6 billion); 2) repayment of interest-bearing liabilities (RMB1.9 billion)

### Highlights

- Lower dilution effect and higher financing efficiency than purely H share issuance or A/H share allotment.
  - ✓ Based on the latest share price statistics of the Company, the A and H Share price ratios are approximately 1.5 times.
  - ✓ Limited immediate dilution and recovery in the medium term.
- The network advantage of the proceeds-financed Outer Ring Project is obvious, and its operating performance of the sections opened to traffic is good.



## Issuance of A Shares

### Significance

- Maturity of issuance policies and market conditions
  - ✓ Since the beginning of this year, the price-to-book ratio of A Shares of the Company was approximately 1.05-1.2x, and stock price is fairly valued.
  - ✓ The Company's core businesses are the national supporting industries, which has great room for future development.
  - ✓ The preliminary work of Outer Ring Phase III is ready to meet the requirements of national industrial policies and regulations on investment projects.
- The Issuance will help expand the scale of high-quality highway assets and consolidate the advantages of core toll road business.
  - ✓ The remaining concession period of some core toll road assets is less than 5 years. The completion of the construction of Outer Ring Phase III will help the entire project apply for a 25-year concession period, extending the concession life of the main business.
- The Issuance is conducive to optimizing capital structure and enhancing long-term returns to shareholders.
  - ✓ The Company is in the critical period of the "14<sup>th</sup> Five-Year" Plan, and the capital expenditure approved by the Board is approximately RMB14.5 billion. The Issuance can effectively use financial leverage, expand investment and financing space, and help relieve the capital pressure under investment and development.
  - ✓ Since the listing of A Shares in 2001, the share capital of the Company has not been effectively expanded. The Issuance is conducive to improving financial structure, reducing financial risks and enhancing comprehensive market competitiveness.



## Outer Ring Project

### Introduction

- Outer Ring Expressway (Shenzhen Section) is approximately 76.8 km from Shajing in the west to Kengzi in the east. It is a two-way six-lane expressway across six districts in Shenzhen and is an important expressway route in the city.
- Outer Ring Phase I & Phase II, with a total length of approximately 60 km, were completed and opened to traffic in late December 2020 and early January 2022, respectively.
- Outer Ring Phase III covers Pingshan District and Dapeng New District, with a distance of approximately 16.8 km. Currently, its preliminary planning has been completed, and the construction is planned to commence in the second half of 2023, and will be completed and open to traffic in 2028, with an estimated total investment of approximately RMB8,447 million.
- RMB4.6 billion of the proceeds from the Issuance is intended to be used for the construction of Outer Ring Phase III.





## Outer Ring Project

### Investment Highlights

- In 2022, Outer Ring Phase I & II contributed approximately 10% and 15% of the Company's revenue and EBIT, respectively.
- In the first half of 2023, the average daily toll revenue of Outer Ring Phase I & II exceeded RMB3.14 million.
- After the completion of Outer Ring Phase III, it is estimated that the project can apply for a 25-year concession period (subject to the final approval of the government).
- Financial impacts:
  - ✓ Upon completion of the Outer Ring Project, the operating income and operating cash flow of the project will be RMB41.4 billion and RMB28.7 billion, respectively.
  - ✓ The financial internal rate of return (after tax) will be approximately 6.76%, at a relatively high level in the industry (approx. 4.7-7.1% with reference to the capital yield of toll road projects in the same industry).

### Investment Implications & Necessity

- The network advantage of Outer Ring Expressway is obvious. It is an important cornerstone for the sustainable development of the Company: the encryption line of the main skeleton network of "12 vertical and 8 horizontal and 2 ring" expressways in Guangdong Province, the important part of the expressway network of "8 horizontal and 13 vertical" main line in Shenzhen, interconnecting with 10 expressways and 8 first-class national highways.
- Investment in Outer Ring Phase III can help Outer Ring Project apply for a 25-year concession period (subject to government approval).
- It can well play the overall benefits of the project as a whole and induce traffic volume to other toll roads of the Company
- Outer Ring Phase III has been listed as a key construction project of provincial expressways in 2023, which is of great significance to improve the expressway layout of the province and relieve the traffic pressure of Shenzhen.



## Frequently Asked Questions

**1. Why is that the pro forma calculation of EPS after the Issuance of A shares is 3% lower than the EPS before the Issuance, while the share capital is 30% higher than before the Issuance?**

A: According to the accounting standards, the number of shares used in the calculation of diluted earnings per share is the weighted average for the current period. The calculation assumption of pro forma EPS after the Issuance in the proposal is that the Issuance will be completed in November 2023. Therefore, the weighted average share capital for the current period is less than that of the previous year. Therefore, the decrease in EPS after the Issuance in the pro forma is less than that of the increase in share capital after the Issuance.

**2. What is the consideration for the Company to adopt issuance of equity financing instead of convertible bonds or rights issue?**

A: The Company adopted private placement mainly for two reasons. Firstly, the debt ratio of the Company has been at a relatively high level, and the investment amount of projects during the strategic period is relatively large. Therefore, the convertible bonds have no obvious effect on the Company to reduce interest-bearing liabilities. Secondly, due to the large price difference between Company A and H Shares, it is difficult to allot shares. Therefore, issuance of equity financing is the most suitable method for the Company.

**3. What is the Company's strategic plan for the cap of debt level? If the Issuance of A Shares is successful, what will the Company improve its financial position?**

A: The total asset-liability ratio requirement of the Company is below 65%. Currently, it is approximately 61%. Upon completion of the Issuance, the total assets and net assets of the Company will increase, the asset-liability ratio will decrease accordingly, the financial position and the asset-liability structure will be effectively improved, and the capital strength, solvency and risk resistance capacity will be further enhanced, providing a good guarantee for the sustainable development of the Company.



**4. The actual traffic volume of Outer Ring Phase I & II is better than expected and has become the core highway asset of the Company. However, after the completion of Outer Ring Phase III, the IRR of the whole project expected to be 6.76%, what is the reason?**

A: The Company was confirmed as the owner of Outer Ring Expressway Project and implemented the project in three phases according to the actual situation. All work carried out by the Company in relation to the Outer Ring Expressway (Shenzhen Section), including preliminary work, investment and financing mode negotiation, as well as the approval of the project and the concession period by the government authorities of Guangdong, are based on the full line of Outer Ring Project. According to the approval policy of the operating highway concession period of Guangdong, the government authorities will organize professional consulting agencies to determine the toll collection period by taking into account factors such as future traffic forecast, revenue forecast, total project cost and operating cost, and using reasonable investment return standards. If the operating performance of the project exceeds expectations, the government will consider during the approved toll collection year. Therefore, the overall investment scale and expected return of the project are important considerations for determining the investment and financing plan. The investment and financing plan of Outer Ring Phase I and II was determined in March 2016. With the decrease in social capital costs and overall market income level in recent years, the Company also adjusted the expected income target accordingly. The full investment yield of Outer Ring Project is expected to be 6.76%, which is still a high level in the industry and an indispensable high-quality project.

**5. What is the basics of Outer Ring Phase III? What will be the Company's increment after completion?**

A: Outer Ring Phase III will increase the toll length of Outer Ring Expressway by approximately 16.8 km through Pingshan District and Dapeng New District upon completion. The project is planned to commence construction in the second half of 2023 and be completed and opened to traffic in 2028. The Outer Ring Project is subject to overall operation and the approved toll collection period. Therefore, the economic benefits should be considered as a whole. Based on the 25-year concession period of Outer Ring Project, the total operating revenue during the operating period will be approximately RMB41.4 billion and the net operating cash flow will be approximately RMB28.7 billion.



## 6. Is the Company committed to dividend distribution?

A: Since its listing, the Company has insisted on rewarding its shareholders. The Company has distributed cash dividends for 26 consecutive years, with a total of approximately RMB13.2 billion. The cash dividends for the past five years accounted for approximately 50% of the net profit attributable to ordinary shareholders of the parent company on a consolidated basis, and approximately 80% of the net profit of the parent company on an individual basis. In particular, in 2022, where the operating environment was extremely difficult, the Company still guaranteed over 55% of the dividend commitments in the Shareholder Return Plan for 2021-2023. At the same time, since 2023, the dividend yield of the Company's A Shares has been maintained at above 5%, ranking top among 19 listed companies in the same industry, with good investment value. Upon completion of the implementation of the current Shareholders' Return Plan, the Company will continue to maintain the stability of its dividend policy.

Shenzhen Expressway will strive to take into account the requirements of the Company's long-term development and the current returns of shareholders. Through the Company's long-term performance improvement + higher proportion of dividend distribution, investors can share the Company's development results.

## 7. Why does the controlling shareholder of the Company participate in the Issuance?

A: The participation of XTC Company in the Issuance indicates the good expectations of the controlling shareholder for the Company's future and its support for the Company's long-term development, which is conducive to the Company's expansion of capital scale, improvement of financial structure and enhancement of long-term development capability.

### **About Shenzhen Expressway**

*Shenzhen Expressway was established on 30 December 1996 and issued overseas listed foreign shares (H shares) in Hong Kong in March 1997, and was listed on The Stock Exchange of Hong Kong Limited on 12 March of the same year; In December 2001, the Company issued RMB-denominated ordinary shares (A Shares) and was listed on the Shanghai Stock Exchange on 25 December. The Company is principally engaged in the investment, construction, operation and management of toll roads and the environmental protection business.*

**For further information, please contact:**

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