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Shenzhen International Holdings Limited
深圳國際控股有限公司
(Incorporated in Bermuda with limited liability)
(Stock Code: 00152)



深圳高速公路集團股份有限公司
SHENZHEN EXPRESSWAY CORPORATION LIMITED
(a joint stock limited company incorporated in the People's
Republic of China with limited liability)
(Stock Code: 00548)

JOINT ANNOUNCEMENT CONTINUOUS INVESTMENT IN OUTER RING PROJECT

INTRODUCTION

This joint announcement is made by SZ Expressway (a subsidiary indirectly owned by SZ International as to approximately 51.56%) pursuant to Rule 13.09(2) of the Listing Rules and the Inside Information Provisions (as defined in the Listing Rules) under Part XIVA of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). This joint announcement is made by SZ International on voluntary basis.

References are made to the joint announcement of SZ International and SZ Expressway dated 18 March 2016 and the respective circulars of SZ International and SZ Expressway both dated 25 April 2016, which are in relation to the Concession Agreement and the Joint Investment and Construction Agreement concerning Outer Ring Section A (inclusive of Outer Ring Phase I and Outer Ring Phase II).

The board of directors of each of SZ International and SZ Expressway is pleased to announce that, Outer Ring Company, a wholly-owned subsidiary of SZ Expressway, will invest approximately RMB8.447 billion in the construction of Outer Ring Phase III.

OVERVIEW OF THE OUTER RING PROJECT

The Outer Ring Project starts from Shajing, Bao'an District in the west, connects to the Guangshen Coastal Expressway, runs through Guangming, Longhua, Longgang, Pingshan, and Dapeng New District, and connects with Pingxi Expressway in Dapeng New District. The total length of the project is approximately 77 km, with six lanes in two-way directions. According to the overall planning of the road network of Shenzhen, the Outer Ring Project is implemented in three phases. Outer Ring Phase I comprises the section of Guanlan to Shajing and the section of Longcheng to Pingdi in Shenzhen. Its length is approximately 51 km and was completed and opened to traffic on 29 December 2020. Outer Ring Phase II comprises the section from Pingdi to Kengzi. Its length is approximately 9.35 km and was completed and opened to traffic on 1 January 2022. The remaining section of the project from Kengzi to Dapeng is Outer Ring Phase III. Its length is approximately 16.8 km. Outer Ring Phase III starts from Kengzi Street, Pingshan District, Shenzhen, which is connected to Outer Ring Phase II, and ends at the intersection of Pingxi Road and Pengfei Road, Dapeng New District, Shenzhen, which is connected to Pingxi Expressway and Pengfei Road. Outer Ring Phase III will adopt two-way six-lane construction standard with a designated speed of 80 km/h.

In 2006, with the approval of Shenzhen Municipal People’s Government, Shenzhen Development and Reform Bureau (now known as Shenzhen Development and Reform Commission) identified SZ Expressway as the owner of the Outer Ring Project (i.e. Shenzhen section of Shenzhen Outer Ring Expressway). Further in 2014, GPDRC approved Outer Ring Company as the responsible party for the investment, construction, operation and management of the Outer Ring Project.

Implementation of Outer Ring Phase I and Outer Ring Phase II

The Outer Ring Project should be implemented in 3 phases. The investment, construction and management proposals of Outer Ring Phase I and Outer Ring Phase II were approved by the respective shareholders of SZ International and SZ Expressway, pursuant to which SZ Expressway and Outer Ring Company had invested or arranged financing of RMB6.5 billion in total, while SZCDGC had applied to relevant departments of the Shenzhen Municipal Government for the remaining construction fund. As the construction and operation entity of Outer Ring Section A (inclusive of Outer Ring Phase I and Outer Ring Phase II), Outer Ring Company was benefited from the concession rights and interests of Outer Ring Section A and bore the costs, taxes, responsibilities and risks related to its operation as agreed in the Concession Agreement. For details, please refer to the joint announcement of SZ International and SZ Expressway dated 18 March 2016 and their respective circulars both dated 25 April 2016.

Outer Ring Phase I and Outer Ring Phase II were completed and opened to traffic in December 2020 and January 2022, respectively. Since opening to traffic, both Outer Ring Phase I and Outer Ring Phase II have performed well and achieved rapid growth in traffic volume and toll revenue. They are the core toll highway assets of SZ Expressway. The operating performance of Outer Ring Phase I and Outer Ring Phase II since opening to traffic and their contributions to SZ Expressway’s operating results are as follows:

Year	2021	2022
Average daily traffic flow (0’000 vehicles)	23	24
Average daily toll revenue (RMB0’000)	252	262
Contribution proportion to the operating revenue of SZ Expressway (%)	8.46	10.19
Contribution proportion to the profit (before interest and tax) of SZ Expressway (%)	11.65	14.75

Investment in Outer Ring Phase III

In order to enrich the core toll highway assets of SZ Expressway, obtain the optimal economic and social benefits of the Outer Ring Project, and strive for the best interests of SZ Expressway and its shareholders, SZ Expressway intends to continue to invest in Outer Ring Phase III with Outer Ring Phase I and Outer Ring Phase II as the basis. Outer Ring Phase III is expected to commence construction in the second half of 2023 and be completed and open to traffic in 2028. According to the approval of GPDRC, the estimated total investment amount of Outer Ring Phase III is RMB8.447 billion.

SZ Expressway and Outer Ring Company propose to raise fund for the project of Outer Ring Phase III on their own, including their own funds by the net inflow of the operating cash of Outer Ring Company, increment of capital of Outer Ring Company and/or provision of shareholder's loan to Outer Ring Company and external financing. SZ Expressway and/or Outer Ring Company may adjust the above financing plan as appropriate according to their own financial situations, financing channels and actual capital costs.

Outer Ring Company will select the construction contractor(s) for the Outer Ring Phase III project through public tender, and enter into construction contract(s) with the construction contractor(s) in accordance with the tender results.

MAJOR CONSIDERATION FACTORS OF THE INVESTMENT AND FINANCING SCHEME OF OUTER RING PHASE III

1. SZ Expressway (including Outer Ring Company) was identified as the owner of the Outer Ring Project, and is responsible for the investment, construction, operation and management of the project, as well as the implementation of the project in 3 phases according to the actual situation. All the works carried out by SZ Expressway (including Outer Ring Company) for the Outer Ring Project are based on the whole of the Outer Ring Project, including commencement of the preliminary work; declaration of the construction scale and technical standards; negotiation on the investment and financing models and the rights and obligations of the project owner; as well as dealing with Guangdong Provincial Government's approval of the project and assessment on the toll collection period of the Outer Ring Project.
2. According to the policy for determination of toll collection period of operating highway in Guangdong Province (廣東省經營性公路收費年限核定政策), relevant government department will arrange professional consultation agencies to assess the toll collection periods of the expressways. The assessments are carried out in accordance with the standards and requirements specified by the government, comprehensively consider factors such as future traffic volume forecast, income forecast, total project cost, operating cost, etc. The toll collection period will be determined based on a reasonable investment return level (self-owned capital, deducting government subsidies), and shall not exceed the maximum number of years stipulated by the State.
3. Having taken into account factors such as the tender of owner, approval of the project and assessment on the toll collection period of the Outer Ring Project as an entirety, after GPDRC approved the estimated total investment amount of Outer Ring Phase III, SZ Expressway studied the investment and financing scheme of Outer Ring Phase III based on Outer Ring Phase I and Outer Ring Phase II. When considering the investment and financing scheme of Outer Ring Phase III, SZ Expressway has based on its previous investment and operation experience in highway projects, taken into account the location advantage of the Outer Ring Project, the scale of investment, the investment and financing scheme and the actual operating performance of Outer Ring Phase I and Outer Ring Phase II, the overall operating expectations of the Outer Ring Project after the opening of Outer Ring Phase III, the existing policy related to toll highway management and the strategic significance of the project to SZ Expressway, etc. SZ Expressway also referred to the documents including the valuation report prepared by Pengxin Appraisal.

VALUATION OF THE OUTER RING PROJECT

Recently, SZ Expressway has appointed Pengxin Appraisal to assess the market value of the asset groups corresponding to the concession right of the Outer Ring Project as at 31 December 2020. Since Outer Ring Phase I and Outer Ring Phase II are completed and opened to traffic while Outer Ring Phase III has not yet commenced construction, the total investment amount at different time points cannot be simply added up but should be unified at the same time point. As Outer Ring Phase I was completed and opened to traffic at the end of 2020, the valuation has adopted income approach with 31 December 2020 as the base date. The specific results of the valuation of the concession right of the Outer Ring Project are as follows:

Unit: RMB0'000

Items	Total amount of static investment ^{Note}	Discounted value of the investment amount discounted to the base date	Assessed value	Appreciation rate(%)
Intangible assets—concession rights of Outer Ring Phase I and Outer Ring Phase II	650,000.00	696,063.08	1,346,563.96	5.42
Intangible assets—concession rights of Outer Ring Phase III	844,703.63	581,243.71		
Outer Ring Project – total	1,494,703.63	1,277,306.79		

Note: The total amount of static investment in Outer Ring Phase I and Outer Ring Phase II refers to the amount of investment by SZ Expressway and Outer Ring Company in accordance with the Concession Agreement and the Joint Investment and Construction Agreement; The total amount of static investment in Outer Ring Phase III refers to the estimated total investment amount approved by GPDRC.

The value of the asset group corresponding to the entire concession right of the Outer Ring Project as at the base date of 31 December 2020 assessed by Pengxin Appraisal is RMB13.466 billion, which was higher than RMB12.773 billion, being the discounted value of the total amount of SZ Expressway’s successive investment of RMB14.947 billion made in the project as at the base date.

IMPACT OF INVESTMENT IN OUTER RING PHASE III

The Outer Ring Project is the encrypted line of the main skeleton network of the “twelve vertical, eight horizontal and two ring” expressways in Guangdong Province. It also forms an important part of the “eight horizontal and thirteen vertical” major road network in Shenzhen. The road network of the Outer Ring Project has obvious advantages. Upon completion of the whole of the project, it will be interconnected with 10 expressways and 8 first-class highways in Shenzhen, and become a high-quality core asset of SZ Expressway.

The operation of Outer Ring Phase I and Outer Ring Phase II have been performed well and their traffic volume and toll revenue have grown rapidly since opening to traffic. In 2022, their contribution to SZ Expressway’s revenue and profit (before interests and tax) were approximately 10% and 15%, respectively. The Outer Ring Project is an important cornerstone of the sustainable development of SZ Expressway. After completion of Outer Ring Phase III, the whole of the Outer Ring Project will be fully connected. On the one hand, it will give full

play to the overall benefits of the project. On the other hand, it will bring traffic flow to other expressways of SZ Expressway by improving the layout of the road network. Completing the construction of the entire Outer Ring Project is the responsibility of SZ Expressway as the project owner, and the completion can also create the necessary conditions for the Outer Ring Project to apply for a reasonable toll collection period. According to preliminary calculations, assuming Guangdong Provincial Government approves a 25-year toll collection and operation period for the Outer Ring Project, the financial internal rate of return (after-tax) of the Outer Ring Project is about 6.76%, which is a reasonable level. Based on SZ Expressway’s investment of RMB6.5 billion in the construction of Outer Ring Phase I and Outer Ring Phase II, the investment and financing scheme of continuing to invest approximately RMB8.447 billion in the construction of Outer Ring Phase III can help to achieve the overall optimal economic benefits and social benefits, and are in the best interests of SZ Expressway and its shareholders.

Completion of the construction of Outer Ring Phase III can effectively improve the asset quality of SZ Expressway, expand the scale of SZ Expressway’s high-quality highway assets, enhance the future development of SZ Expressway’s principal toll highway business, and further consolidate SZ Expressway’s core advantages in the investment, construction and operation of its toll highway business, which is in line with the interests of SZ Expressway and its shareholders as a whole. As SZ Expressway is a subsidiary of SZ International, the further consolidation of SZ Expressway’s core advantages is beneficial to the overall development of SZ International.

LISTING RULES IMPLICATIONS

The investment in Outer Ring Phase III does not constitute a notifiable transaction under Chapter 14 of the Listing Rules. In the event any contract or agreement is entered into for the implementation of Outer Ring Phase III (such as engineering, construction or contracting, etc.), SZ International and SZ Expressway will comply with the relevant requirements under the Listing Rules (if applicable).

DEFINITIONS

“Concession Agreement”	the concession contract in relation to Outer Ring Section A entered between the Transport Commission and Outer Ring Company on 18 March 2016
“GPDRC”	Guangdong Provincial Development and Reform Commission (廣東省發展和改革委員會)
“Joint Investment and Construction Agreement”	the joint investment and construction agreement entered among SZCDGC, SZ Expressway and Outer Ring Company in connection with the Outer Ring Section A on 18 March 2016
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Outer Ring Company”	Shenzhen Outer Ring Expressway Investment Company Limited (深圳市外環高速公路投資有限公司), a limited liability company incorporated in the PRC and a wholly-owned subsidiary of SZ Expressway
“Outer Ring Project”	Shenzhen section of Shenzhen Outer Ring Expressway

“Outer Ring Section A”	Outer Ring Project (Coastal Expressway – Shenshan Expressway section) (inclusive of Outer Ring Phase I and Outer Ring Phase II)
“Outer Ring Phase III”	Kengzi to Dapeng section of Outer Ring Project
“Pengxin Appraisal”	Shenzhen Pengxin Appraisal Limited (深圳市鵬信資產評估土地房地產估價有限公司)
“PRC”	the People’s Republic of China
“RMB”	the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SZ Expressway”	Shenzhen Expressway Corporation 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
“SZ International”	Shenzhen International Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“SZCDGC”	Shenzhen SEZ Construction and Development Group Co., Ltd. (深圳市特區建設發展集團有限公司), a limited liability company incorporated in the PRC
“Transport Commission”	the Transport Commission of Shenzhen Municipality (深圳市交通運輸委員會)

By Order of the Board
Shenzhen International Holdings Limited
Liu Wangxin
Joint Company Secretary

By Order of the Board
Shenzhen Expressway Corporation Limited
Zhao Gui Ping
Joint Company Secretary

14 July 2023

As at the date of this joint announcement, the board of directors of SZ International consists of Messrs. Li Haitao, Liu Zhengyu, Wang Peihang and Dr. Dai Jingming as executive Directors, Dr. Zhou Zhiwei as non-executive Director and Mr. Pan Chaojin, Dr. Zeng Zhi and Dr. Wang Guowen as independent non-executive Directors.

As at the date of this joint announcement, the directors of SZ Expressway are Mr. LIAO Xiang Wen (Executive Director and President), Mr. WANG Zeng Jin (Executive Director), Mr. WEN Liang (Executive Director), Mr. DAI Jing Ming (Non-executive Director), Ms. LI Xiao Yan (Non-executive Director), Mr. LÜ Da Wei (Non-executive Director), Mr. BAI Hua (Independent non-executive Director), Mr. LI Fei Long (Independent non-executive Director), Mr. MIAO Jun (Independent non-executive Director) and Mr. XU Hua Xiang (Independent non-executive Director).

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