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**Shenzhen Investment Holdings Bay Area
Development Company Limited**
深圳投控灣區發展有限公司
(incorporated in the Cayman Islands with limited liability)
Stock Codes: 737 (HKD counter) and 80737 (RMB counter)

**CONNECTED TRANSACTION AND
CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO JOINT OPERATION OF NEW HEZHOU TOLL STATION**

THE COMPENSATION AGREEMENT

On 18 September 2023, the GS JV and Shenzhen Expressway entered into the Compensation Agreement, pursuant to which, it was agreed that (i) the GS JV and Shenzhen Expressway shall jointly operate the New Hezhou Toll Station; (ii) Shenzhen Expressway shall pay a one-off Layout Optimisation Fee of RMB2,867,900 (inclusive of tax) to the GS JV; and (iii) Shenzhen Expressway shall pay the Operation Management Fees with an annual cap that shall not exceed RMB30,000,000 to the GS JV as compensation for the increased operation costs during the term of the Compensation Agreement.

LISTING RULES IMPLICATIONS

Shenzhen Expressway is the intermediate controlling shareholder (as defined in the Listing Rules) of the Company holding 71.83% of the total issued share capital of the Company, accordingly a connected person of the Company under Chapter 14A of the Listing Rules. GS JV is a deemed subsidiary of the Company. The Layout Optimisation Fee is a one-off payment and the Operation Management Fees are continuous payment payable by Shenzhen Expressway to GS JV, therefore the transactions contemplated under the Compensation Agreement constitute a connected transaction and continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the respective highest applicable percentage ratio for the Layout Optimisation Fee and the annual cap for the Operation Management Fees as defined under Rule 14.07 of the Listing Rules exceeds 0.1% but all applicable percentage ratios are less than 5%, pursuant to Rule 14A.76 of the Listing Rules, the entering of the Compensation Agreement by the GS JV and Shenzhen Expressway is exempt from the circular (including independent financial advice) and shareholders' approval requirements and are only subject to the announcement and annual reporting requirements.

1. INTRODUCTION

Hezhou Toll Station is wholly owned by the GS JV and locates at the Hezhou Interchange of the GS Superhighway, which connects the Jihe Expressway, the GS Superhighway, the southern road of Shenzhen Baoan International Airport and the National Highway 107. It has a total of 20 lanes with 6 lanes at the south toll plaza and 14 lanes at the north toll plaza. Currently, vehicles travelling on the GS Superhighway can access the Shenzhen Baoan International Airport and National Highway 107 through Hezhou Toll Station directly.

Huanghe Toll Station of the Jihe Expressway is wholly owned by Shenzhen Expressway and has a total of 10 lanes. Currently, vehicles accessing the Shenzhen Baoan International Airport and National Highway 107 via Jihe Expressway must first pay tolls and exit at Huanghe Toll Station before entering the 2 direct channels at Hezhou Toll Station to continue their journey.

As part of the Coastal Phase II project, Shenzhen Expressway will dismantle Huanghe Toll Station and will build the Extended Toll Station to replace Huanghe Toll Station to collect tolls for travelling on the Jihe Expressway. The Extended Toll Station will locate at the right side of the Hezhou Toll Station with a total of 6 lanes, including 4 newly built lanes and the 2 transformed direct channels.

For the purpose of accelerating the completion of the Coastal Phase II project, Shenzhen Expressway and the GS JV reached a consensus on the joint operation of the New Hezhou Toll Station which is combining the Hezhou Toll Station and the Extended Toll Station, and entered into the Compensation Agreement.

2. THE COMPENSATION AGREEMENT

The major terms of the Compensation Agreement are summarised as follows:

Date

18 September 2023

Parties

- (a) GS JV (a deemed subsidiary of the Company)
- (b) Shenzhen Expressway (the intermediate controlling shareholder (as defined in the Listing Rules) of the Company)

Joint operation of New Hezhou Toll Station

1. The GS JV and Shenzhen Expressway agreed to jointly operate the New Hezhou Toll Station, which is a toll station combining the Hezhou Toll Station and the Extended Toll Station. After the combination, the New Hezhou Toll Station will have a total of 26 lanes, serving traffic flows from both the GS Superhighway and the Jihe Expressway. The GS JV will be responsible for operation, management and toll collection of the New Hezhou Toll Station, and Shenzhen Expressway shall thereby compensate the GS JV for the increased operation costs in accordance with the terms of the Compensation Agreement as detailed below:
 - (i) Shenzhen Expressway shall pay a one-off Layout Optimisation Fee of RMB2,867,900 (inclusive of tax) to the GS JV. The amount of the Layout Optimisation Fee was determined by the Parties after fair negotiations and taking into account the estimated costs for optimising the layout of New Hezhou Toll Station (i.e. building new lanes and reconstructing existing lanes for the Extended Toll Station, installing new ETC equipment, etc.). Upon entering into the Compensation Agreement, the GS JV shall submit relevant payment application materials within 30 days and the Layout Optimisation Fee will be payable to the GS JV after Shenzhen Expressway's approval.

- (ii) Shenzhen Expressway shall pay Operation Management Fees of the Relevant Periods (as defined below) to the GS JV on the Payment Dates (as defined below) in the following manner during the term of the Compensation Agreement:

Payment Date (on or before) (the “Payment Date(s)”)	Operation Management Fees covering period (the “Relevant Period(s)”)
31 October 2023	From the effective date of the Compensation Agreement to 31 December 2023
30 April 2024	1 January 2024 to 30 June 2024
31 October 2024	1 July 2024 to 31 December 2024
30 April 2025	1 January 2025 to 30 June 2025
31 October 2025	1 July 2025 to 31 December 2025
30 April 2026	1 January 2026 to 30 June 2026
31 October 2026	1 July 2026 to the expiration of the Compensation Agreement

The amount of the Operation Management Fees was determined by the Parties after fair negotiations and by taking into account the estimated total operation and management costs of the New Hezhou Toll Station. The Operation Management Fees are the total sum of (a) Management Costs to be incurred by the GS JV for mechanical and electrical maintenance, road maintenance, labour costs, daily financial budgets, security and other associated management costs; (b) Dormitories Rental Fee for the staffs; and (c) Lanes Rental Fee to be incurred given the capacity of the Extended Toll Station will not be sufficient to meet the traffic flow via the Jihe Expressway and thus requiring to rent toll lanes of the GS Superhighway.

(a) Management Costs

The allocation of the Management Costs for each Relevant Period throughout the term of the Compensation Agreement, spanning from 2023 to 2026, is based on the proportion of actual traffic flow via Jihe Expressway during the respective Relevant Periods. The formula for determining the amount of the Management Costs for each payment period is set out below:

Relevant Period's Management Costs = (Relevant Period's estimated total management cost^{N1} x proportion of Relevant Period's actual traffic flow via Jihe Expressway) / 365 x actual days of joint operation of New Hezhou Toll Station in the Relevant Period

N1: The estimated total management cost for New Hezhou Toll Station each year (using historical figures of Hezhou Toll Station's operation management cost in 2022 as reference) during the term of the Compensation Agreement is set out in the table below:

<u>Year</u>	<u>Estimated total management costs (RMB)</u>
2022 (as reference year)	26,075,886 (historical figures)
2023	26,553,075 ^{N2}
2024	27,038,996 ^{N2}
2025	27,533,809 ^{N2}
2026	28,037,677 ^{N2}

N2: The estimated total management costs for 2023, 2024, 2025 and 2026 is subject to an estimated growth rate of 1.83% (with reference to an average consumer price index (CPI) of 1.83% for the three years ended 31 December 2022) per annum.

(b) Dormitories Rental Fee

The formula for determining the Dormitories Rental Fee for each payment period is set out below:

Relevant Period's Dormitories Rental Fee = RMB2,679 (inclusive of tax, being the agreed rental fee between the Parties based on the market dormitory rental fees) per room for 2 persons per month x number of rooms^{N3} x actual months of joint operation of New Hezhou Toll Station in the Relevant Period

N3: The number of rooms = (142 (i.e. estimated manpower of the New Hezhou Toll Station based on historical manpower of existing Hezhou Toll Station) x the proportion of Relevant Period's actual traffic flow via Jihe Expressway) /2 (i.e. two persons share one room).

(c) Lanes Rental Fee

The formula for determining the Lanes Rental Fee for each payment period is set out below:

Relevant Period's Lanes Rental Fee = (RMB69,116^{N4} (inclusive of tax) per lane x number of lanes^{N5} + RMB41,255^{N4} (inclusive of tax) per direct channel x 2^{N6}) / 365 x actual days of joint operation of New Hezhou Toll Station

N4: The rental fees of the lanes and direct channels are the agreed amount of the Parties taking into account the depreciated costs of lanes and direct channels.

N5: The number of lanes = 26 (i.e. total lanes at the New Hezhou Toll Station) x the proportion of Relevant Period's actual traffic flow via Jihe Expressway - 6 (i.e. the six lanes of the Extended Toll Station).

N6: The two direct channels of the New Hezhou Toll Station.

2. Both the Layout Optimisation Fee and the Operation Management Fee encompass all the labour costs, equipment costs, material costs and all related management fees, taxes, insurance, etc required by the GS JV to fulfill the agreement, during the term of the Compensation Agreement. Unless otherwise agreed by the Parties, Shenzhen Expressway will not bear any additional expenses.
3. For joint operation of the New Hezhou Toll Station that is less than one full year, the annual Operation Management Fee shall be determined based on the actual number of months and days of joint operation.
4. New Hezhou Toll Station will serve traffic flows from the GS Superhighway direction and the Jihe Expressway direction. Due to the dynamic changes of traffic flow of the two expressways, the average of the proportion of the traffic flow of the Jihe Expressway direction for the three months prior to each Payment Date would be used to determine the Operation Management Fee.

Term of The Compensation Agreement

The Compensation Agreement has a term of three (3) years commencing from the date of its signing. The Parties agreed that, should they desire, subject to the compliance with the requirements under the Listing Rules, the agreement may be renewed pursuant to the original terms of the Compensation Agreement two months prior to the expiration of the Compensation Agreement. Such renewed agreement will have a term commencing from the day immediately following the expiration of the Compensation Agreement, extending up to 30 June 2027, subject to the extension of the concession rights of the GS Superhighway by the PRC government in relation to the implementation of the policy of waiver of tolls on toll roads nationwide during 17 February 2020 to 5 May 2020.

Proposed Annual Cap

The proposed annual caps for the Operation Management Fee (comprising the Management Costs, the Dormitories Rental Fee and the Lanes Rental Fee) are set out as follows:

	<u>1st year</u>	<u>2nd year</u>	<u>3rd year</u>
	(From 18 September 2023 to 17 September 2024)	(From 18 September 2024 to 17 September 2025)	(From 18 September 2025 to 17 September 2026)
Proposed annual cap:	RMB30 million	RMB30 million	RMB30 million

Based on the formulas used to determine the Management Costs, the Dormitories Rental Fee and the Lanes Rental Fee as disclosed above, the proportion of Relevant Period's actual traffic flow via Jihe Expressway will be the key factor affecting the amount of the Operation Management Fee payable by Shenzhen Expressway under the Compensation Agreement. Given the potential change in traffic flow structure upon the closure of Huanghe Toll Station and the commencement of operation of the New Hezhou Toll Station, as well as the opening of the Coastal Phase II and Shenzhen-Zhongshan Channel in near future (expected to be in 2024), it is difficult to estimate the dynamic changes of traffic flow from both the Jihe Expressway direction and the GS Superhighway direction. Accordingly, there is no reference value of the historical traffic flow figures in determining the estimated proportion of Relevant Period's traffic flow via Jihe Expressway during the term of the Compensation Agreement, for the purpose of calculating the proposed annual caps. In order to determine the proposed annual cap for each year during the term of the Compensation Agreement in a more prudent way, the Company assumed that under extreme case most of the traffic flow would be from Jihe Expressway direction and only a small portion of traffic flow would be from GS Superhighway direction, therefore 90% being the proportion of

traffic flow of the Jihe Expressway direction is used to determine the annual caps for the Operation Management Fees. As a result, under such extreme case, the estimated Operation Management Fees payable by Shenzhen Expressway for the first, second and third year of the Compensation Agreement would be approximately RMB28 million, approximately RMB28 million and approximately RMB29 million respectively, and the proposed annual cap is set as RMB30 million each year.

3. REASONS FOR AND BENEFITS OF ENTERING INTO THE COMPENSATION AGREEMENT

The entering into of the Compensation Agreement is conducive to improving the GS JV's overall management efficiency and operating capacity. Through managing the operation of New Hezhou Toll Station, the GS JV gains a valuable upgrade to its wholly owned and invested property. Further, it brings expressway users a more efficient and convenient experience. After the GS JV takes over the operation and management of New Hezhou Toll Station, the compensation from Shenzhen Expressway in accordance with the Compensation Agreement can basically offset the increase in its operating costs, and will not increase the financial burden of the GS JV. On the other hand, it will be more conducive for the GS JV to improve the strength in control of the daily operational management, increase the efficiency of the operation of the toll station and as a result, attracting more traffic to Jihe Expressway and GS Superhighway and in a long term, enhancing the return of the Group's investment in the GS JV.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Compensation Agreement and the proposed annual caps are fair and reasonable. The transactions contemplated under the Compensation Agreement are on normal commercial terms or better as compared to those available from independent third parties under the prevailing market conditions, in the ordinary and usual course of business of the Group and in the interests of the Company and its shareholders as a whole.

Mr. Xiangwen LIAO*, being the chairman of the Board and an executive Director of the Company, is also an executive director of Shenzhen Expressway as at the date of this announcement, he may be regarded as having a material interest in the transactions under the Compensation Agreement, and had therefore abstained from voting on the relevant Board resolution approving the Compensation Agreement and the transactions contemplated thereunder. Save as disclosed in this announcement, no Director is required to abstain from voting on the relevant Board resolution approving the Compensation Agreement.

4. INFORMATION OF THE PARTIES

Shenzhen Expressway is a company incorporated in the PRC, the shares of which are listed on the Stock Exchange (HKEx Stock code: 548) and Shanghai Stock Exchange (SSE Stock code: 600548) and is ultimately controlled by State-owned Assets Supervision and Administration Commission of the People's Government of Shenzhen Municipality. The principal activities of Shenzhen Expressway and its subsidiaries are the investment, construction, operation and management of toll highways and roads and other urban and transportation infrastructures.

GS JV is principally engaged in the operation and management of the GS Superhighway, which is a joint venture established by Hopewell China Development (a non-wholly owned subsidiary of the Company) and Guangdong Highway Construction.

5. LISTING RULES IMPLICATIONS

Shenzhen Expressway is the intermediate controlling shareholder (as defined in the Listing Rules) of the Company holding 71.83% of the total issued share capital of the Company, accordingly a connected person of the Company under Chapter 14A of the Listing Rules. GS JV is a deemed subsidiary of the Company. The Layout Optimisation Fee is a lump sum payment and the Operation Management Fees are continuous payment payable by Shenzhen Expressway to GS JV, therefore the transactions contemplated under the Compensation Agreement constitute a connected transaction and continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the respective highest applicable percentage ratio for the Layout Optimisation Fee and annual cap for the Operation Management Fees as defined under Rule 14.07 of the Listing Rules exceeds 0.1% but all applicable percentage ratios are less than 5%, pursuant to Rule 14A.76 of the Listing Rules, the entering of the Compensation Agreement by the GS JV and Shenzhen Expressway is exempt from the circular (including independent financial advice) and shareholders' approval requirements and are only subject to the announcement and annual reporting requirements.

DEFINITIONS

“Board”	the board of Directors
“Coastal Phase II”	Phase II of Guangshen Coastal Expressway (Shenzhen Section) which includes two parts, being the construction of the interchange of the International Convention and Exhibition Center which was completed and opened to traffic in 2019 and the construction of the connection lane on the Shenzhen side of Shenzhen-Zhongshan Channel which has total length of approximately 5.7 km and is currently under construction
“Company”	Shenzhen Investment Holdings Bay Area Development Company Limited (深圳投控灣區發展有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange (Stock Codes: 737 (HKD Counter) and 80737 (RMB Counter))
“Compensation Agreement”	the compensation agreement dated 18 September 2023 entered into between GS JV and Shenzhen Expressway in relation to joint operation of New Hezhou Toll Station
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Dormitories Rental Fee”	part of the Operation Management Fees payable by Shenzhen Expressway to the GS JV in relation to labor accommodation costs

“Extended Toll Station”	a new toll station to be built on the right of the exit plaza of the Hezhou Toll Station with a total of 6 lanes, including 4 newly built lanes and the 2 transformed direct channels and will be wholly owned by Shenzhen Expressway
“Group”	the Company and its subsidiaries
“GS JV”	Guangzhou-Shenzhen-Zhuhai Superhighway Company Limited (廣深珠高速公路有限公司), the joint venture established by the Group and Guangdong Highway Construction in Guangzhou City, Guangdong Province of the PRC on 27 April 1988
“GS Superhighway”	Guangzhou-Shenzhen Superhighway
“Guangdong Highway Construction”	Guangdong Provincial Highway Construction Company Limited* (廣東省公路建設有限公司), the PRC joint venture partner of GS Superhighway JV and a company established in the PRC with limited liability and a non wholly-owned subsidiary of Guangdong Provincial Communication Group Company Limited* (廣東省交通集團有限公司), being a state-owned enterprise established in the PRC
“Hopewell China Development”	Hopewell China Development (Superhighway) Limited, a company established in Hong Kong with limited liability and an indirect non-wholly owned subsidiary of the Company
“Hezhou Toll Station”	the current toll station of GS Superhighway at the Hezhou Interchange, which is divided into north and south toll plazas, and has a total 20 lanes
“Huanghe Toll Station”	the current toll station of Jihe Expressway at the Huanghe Interchange and has a total 10 lanes

“Jihe Expressway”	the expressway from Shenzhen International Airport to Heao in Shenzhen City, comprising Jihe East (Qinghu to Heao) and Jihe West (airport to Qinghu) and is wholly owned by Shenzhen Expressway
“Lanes Rental Fee”	part of the Operation Management Fees payable by Shenzhen Expressway to the GS JV in relation to renting of toll lanes of the GS Superhighway
“Layout Optimisation Fee”	RMB2,867,900 (inclusive of tax), a one-off fee payable by Shenzhen Expressway to the GS JV for the layout optimisation of the New Hezhou Toll Station
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Management Costs”	part of the Operation Management Fees payable by Shenzhen Expressway to the GS JV in relation to the cost for mechanical and electrical maintenance, road maintenance, labour costs, daily financial budgets, security and other associated management costs
“New Hezhou Toll Station”	the combined toll station of Hezhou Toll Station and Extended Toll Station, and has 26 lanes
“Operation Management Fees”	an aggregate amount of the Management Costs, the Dormitories Rental Fee and the Lanes Rental Fee, with an annual cap RMB30 million
“PRC” or “China”	the People’s Republic of China
“Parties”	Shenzhen Expressway and GS JV
“RMB”	Renminbi, the lawful currency of the PRC

“Shenzhen 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 Main Board of the Stock Exchange (Stock Code: 00548) and the A shares of which are listed on the Shanghai Stock Exchange (Security Code: 600548), which is ultimately controlled by State-owned Assets Supervision and Administration Commission of the People’s Government of Shenzhen Municipality

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“%”

per cent

By Order of the Board
**Shenzhen Investment Holdings Bay Area
Development Company Limited**
Ji LIU*
Executive Director and Deputy General Manager

Hong Kong, 18 September 2023

As at the date of this announcement, the Board comprises four Executive Directors namely, Mr. Xiangwen LIAO (Chairman), Mr. Jianming WU* (Executive General Manager), Mr. Cheng WU* (Deputy General Manager) and Mr. Ji LIU* (Deputy General Manager and Secretary to the Board); two Non-executive Directors namely, Ms. Siyan CHEN* and Mr. Xuan WANG*; and three Independent Non-executive Directors namely, Mr. Yu Lung CHING, Mr. Tony Chung Nin KAN and Mr. Peng XUE*.*

** For identification purpose only*