

E-Flash Report

2017 Annual Results

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2017 Annual Results Briefing

On 26 March 2018, Shenzhen Expressway 2017 Annual Results Briefing was held in Shenzhen and Hong Kong respectively, a total of 83 investors, analysts and reporters attended. Mr. HU Wei, Chairman, Mr. WU Yade, President, Ms. GONG Taotao, Financial Controller, Mr. LUO Kun, Company Secretary, and Ms. ZHENG Zheng, IR Manager attended the meetings and introduced the Company's operation and the financial performance in 2017, the Company's current development characteristics, and future business development planning. The management and the participants have had in-depth communication related to the topics, such as the operating environment of the toll road industry, the progress of various operating projects and the development plan of the dual core business.

(Please go to <http://www.sz-expressway.com/UploadFiles/2018/03/232317265FF6D8BF.pdf> to read or download the materials for reference.)



Speech of Chairman



Guests from investment and media sector,

Welcome to the Annual Result Presentation of Shenzhen Expressway. The operating results of Shenzhen Expressway for 2017 were in line with the expectation of the management. As benefited from the unswerving dedication to implement the strategy of dual-core business, the joint efforts and hard work of all employees and the support from government authorities and society, the various operating projects and investment projects were conducted smoothly and the progress of the business transformation towards environmental protection industry was better than expected. Upon the formulation of the 2015-2019 Development Strategy three years ago, the Company made a strategic decision to consolidate and upgrade the core business of toll highway industry, and proactively explore and determine the new industry development direction. Over the past three years, adhering to the concept of innovative development, Shenzhen Expressway established the innovative purchase model for the Three Projects including the Nanguang Expressway, which offered a golden opportunity for transformation and upgrade. Moreover, Shenzhen Expressway successfully gained the rights for the construction and operation of the Outer Ring Expressway Project through the innovative design of the PPP model. Shenzhen Expressway also actively explored investment opportunities in the market, and increased the shareholding of Shuiguan Expressway and Wuhuang Expressway, and acquired Yichang Expressway and Coastal Project. In response to the long-term demands of environmental protection as a national development strategy, the Company decided to select the environmental protection industry as the second core business. Leveraging on investment in Water Planning Company and Derun Environment, as well as the cooperation with famous enterprises, the Company has entered into the environmental protection industry with a high starting point. The Company has completed a cumulative investment of RMB11.2 billion with an additional toll mileage of approximately 220 km. Assets under projects on environmental protection, finance and comprehensive urban development accounted for over 20% of total assets, reflecting an optimization improvement in the Company's asset structure.

At the current stage, the Company's development presents several obvious characteristics:

1. The Company has gradually stepped out the predicament of repurchasing high quality assets and has made a great progress in business transformation and upgrade. The Company is gradually getting rid of the passive situation of over-reliance on the core business of toll highway and has a plenty of investment opportunities in the future.

Upon the implementation of Toll Free Scheme on Holidays three years ago, the Shenzhen Government proposed the plan on repurchase of Shenzhen Expressway's major roads in Shenzhen Region based on the government's arrangements on traffic organization in Shenzhen. At that time, the Company's toll highways with higher toll fees were located in Shenzhen. The average operating period for other highways was around ten years. In addition, there was a rigid increase in construction costs for new road. Hence, it was lack of good opportunity for project investment at that moment. Industry and regional policies in Shenzhen also put a huge pressure on the Company. Under such circumstances, with the support from the State-owned Assets Supervision and Administration Commission (SASAC) and the major shareholder, especially in consideration of the wise, prudent research made by the management team, the Company reviewed the situation and proposed to consolidate and upgrade the existing core business of toll highway. Meanwhile, the Company commenced its business transformation towards environmental protection industry as an

early precaution. Through negotiations with government authorities on the repurchase, the Company gained the valuable Outer Ring Project with PPP model, which made the unbearable rigid costs became reasonable, thus fulfilling the requirement of the Company on investment return. On the basis of the existing entrusted construction and management, Shenzhen Expressway acquired quality asset inventory, i.e. Coastal Expressway (Shenzhen Section), through commercial negotiation with government authorities. Upon the completion and commencement of operation of Coastal Phase II and Shenzhong Expressway, it is expected that there will be substantial growth in traffic volume. The Company also boosted the growth in its core business of toll highway by conducting a series of actions including the acquisition of Yichang Expressway, the increase in shareholding of Shuiguan Expressway and the investment in Changsha Ring Road. Through adoption of innovative development concept and innovative business mode, the toll mileage invested by the Company increased by 220 km. Although the government reduced the toll mileage subject to repurchase under the Three Projects by over 70 km during the year, the toll mileage of the Company still increased by over 100 km. Moreover, the terms and expected returns of newly acquired projects were better than that of existing projects. Hence, the ability to maintain sustainable development in toll highway business of Shenzhen Expressway has been strengthened. Currently, Shenzhen government is formulating the new proposal on traffic organization. Leveraging on its competitive edges in infrastructure construction, the Company will enjoy plenty business opportunities in Shenzhen-Shanwei, Zhanjiang, Zhongshan, Longli and other regions, including road investment, entrusted construction and management projects and PPP projects, etc. Shenzhen Expressway is enjoying unprecedented, huge opportunities for business development. Hence, Shenzhen Expressway has to select the most suitable projects from numerous business opportunities in the market.

2. The Company successfully conducted the business transformation towards environmental protection industry, it is proved that the Company has adopted correct strategy of entering into this industry with a high starting point through cooperation with famous enterprises by merger and acquisition. In the past two years, the Company has invested in Shenzhen Water Regulation Institute, acquired 20% equity interests in Derun Environment, and commenced Phase I of Nanmen River Comprehensive Management Project in Shenzhen-Shanwei Special Cooperation Zone. In addition, the number of environmental protection businesses under negotiation or research by the Company has increased significantly. The central government has put its unprecedented efforts in promoting environmental protection. The investment and project opportunities in the field of environmental protection offered by government authorities at all levels, including Shenzhen Government, were much greater than expected. Hence, the business transformation of the Company is better-than-expected. The Group's net profit recorded RMB1,400 million in the previous year, of which, the contribution from business transformation towards environmental protection industry and merger and acquisition amounted to RMB300 million to RMB400 million. Through mergers, acquisitions and investments previously made, the Company has established strategic cooperation relationship with Water Planning Company, Chongqing Water, Chongqing Sanfeng Environment and Suez, the largest environmental protection enterprise in the world. It is not only financial investment, but also strategic investment. In addition, Shenzhen Government plans to construct an environmental protection industry park in Shenzhen-Shanwei Special Cooperation Zone, where Shenzhen Expressway serves as one of the three leading units. Looking forward, in addition to making business transformation proposals, the Company will put great efforts in developing holding-type projects. We will also focus on market segmentation, aiming to meet the industry leading standards in market segments including water regulation and solid waste treatment. This is the second phase of the Company's development plan.

3. With the rapid development of internet of things (IoT) and information technologies, intelligent transportation has become the development trend of general management of modern traffic. Taking opportunities arising from this new era, the Company has established the information technology department, which proposed the idea of establishing intelligent toll highways, intelligent environmental protection business and intelligent operation of Shenzhen Expressway. The Company will actively conduct research on new technologies in relevant fields, and facilitate the construction of intelligent traffic and intelligent environmental protection business, thereby creating new source for profit growth of the Company.

4. Over the past few years, the Company has been facilitating the implementation of its human resources policy and adhering to establish a long-term incentive mechanism, aiming to share the growth of the Company with its key personnel. As the Company made huge progress in its business development, the profits of the Company increased significantly, resulting in significant growth in income of our employees. At the end of last year, the Company distributed bonus to key personnel despite the implementation of the long-term incentive mechanism has been postponed. The total bonus distributed was significantly higher than that of the prior years. Shenzhen SASAC has requested its direct enterprises to complete the formulation of long-term incentive plan within this year. The Company will continue to work on formulating an effective incentive plan that meets with policy requirements. In the coming three years, the Company will actively fight for the implementation of favorable policies. Moreover, the Company will optimize our remuneration and benefit packages by offering more attractive packages than those of our industry peers in the same region, aiming to share results of our development with all employees, and link the interests of employees with the Company's development, thereby stimulating the momentum for the development of the Company.

5. As there will be numerous investment opportunities ahead, Shenzhen Expressway has to build up sufficient financing channels and formulate healthy financial strategy. As previously mentioned by Gong Taotao, Financial Controller, the debt ratio of the Company will be maintained at below 65% in the future, with capital available for investment of over RMB10.0 billion. The Company actively conducted research on numerous financing channels and financing products, and established the platform for domestic and overseas financing. Following the successful issuance of USD300 million debenture in 2016, the proposed issuance of A share convertible bonds of not more than RMB2.2 billion was approved by the general meeting. Relevant procedures for the issuance will be completed within this year. Recently, the Company entered into strategic cooperative agreement with China Development Bank. Pursuant to which, a general credit line of RMB20.0 billion has been granted to the Company. The effective financing channels and sufficient bank credit line will provide a solid foundation for the future business development of the Company.

Looking forward, leveraging on its core competitive edges in traffic infrastructure construction and management accumulated over the past two decades, coupled with its good start in business transformation during the past three years, Shenzhen Expressway will grasp the opportunities arise in this new era, stick to innovation-driven, rely on resources integration and consolidation, so as to ultimately achieve long-term, healthy development of the Company and create more value for our shareholders. Thank you!

1. How is the policy environment for the highway industry?

A: There is no material change in the policies of toll highway industry. Nevertheless, such policies tended to be regulated and market-oriented as well as to protect reasonable revenue of operators. Major information includes:

1) Base on the original toll-by-weight policy for trucks, *the Provisions on the Administration of Use of Roads by Overloaded Transportation Vehicles* () (the “Administrative Provisions”) have been

implemented nationwide starting from late September 2016. The Administrative Provisions had certain negative impact

4) Recently, the Highway Bureau of the Ministry of Transport issued the *Guiding Opinions on Expanding the Implementation of the Pilot Program of Differentiated Toll Collection at Different Times for Highways (Draft for Consultation)* (), implementing differentiated toll collection for the sections with significantly different traffic volume at different times, neighbouring parallel sections with large difference in traffic volume and sections with traffic volume obviously lower than designed capacity. Holding itself accountable to enterprises and focusing on protecting the interests of investors, the Company proposed to the Department of Transport of Guangdong Province the advice on implementing the pilot program in phases and promoting reform in smart transportation technology as well as the views on receiving compensation from the government.

5) The Ministry of Transport issued the *Regulation on the Administration of Toll Roads (Amended Draft for Consultation)* () in late July 2015, amending and improving the financing model, source of funds and operation and management of toll roads based on the principle of “payment by road users”. The draft for examination has been submitted to the State Council and has yet to be launched. Currently, we notice that certain provinces have extended the tolling year of some

2. What is the operating objectives of the Company in 2018? What are the businesses that contribute to growth?

A: Based on the reasonable analysis and expectation on our operating environment and operating conditions, the Group has set a total revenue target for 2018 of not less than RMB5.7 billion, with the total of operating costs, management expenses and selling expenses (excluding depreciation and amortisation) of approximately RMB1.7 billion. In 2018, it is expected that the average borrowing scale (including the compensation received in advance from Shenzhen government regarding the toll adjustment of Three Projects) and the financial cost of the Group will be increase on a YOY basis.

Profit growth in 2018 will be attributable to the following aspects:

- 1) Toll revenue of the existing toll road projects will continue to maintain a steady growth.
- 2) Annual profit contribution from new projects (Yichang Project and Derun Project).
- 3) Guilong Property Project will continue to generate profit that comes from property development and land transfer.
- 4) If it is confirmed that the government will recover the Three Projects in the second half of the year, the Company will recognise a gain from disposal of assets of approximately RMB1.6 billion.

3. What is the Company's plan in expanding the toll road and environmental protection business in the future?

A: Shenzhen Expressway will continue to adhere to expansion and innovation and strengthen the road and environmental protection business by using innovation as the driving force and capitalizing on the material and historic opportunity to be brought about by the country in its development of transport to make itself stronger and in the construction of ecological civilization.

In respect of the highway business, the Company will proactively advance the research and implementation of intelligent transportation, enhance traffic efficiency and ensure stable growth in toll revenue. Through the material projects such as Outer Ring, Coastal Phase II and reconstruction and expansion of Jihe, the Company will be committed to establishing quality construction, safety construction, integrity construction and century construction while continuing to cultivate professional teams by giving full play to its professional advantages so to ensure it remains in an advantageous position in construction. In addition, the Company will also maintain good cooperation with the government and carefully develop business model and operating model and actively participate in the strategic plans of the transport network of Shenzhen and the infrastructure of Shenzhen-Shanwei Special Cooperation Zone. The Company will actively seek opportunities for mergers and acquisitions, invest in potential toll road and bridge projects, and continuously improve the core business of toll highway. The Company's internal return on investment in the toll highway projects will be not less than 8%.

In order to explore the opportunities in the related business of the construction of urban infrastructure in Shenzhen-Shanwei Special Cooperation Zone and enhance decision-making efficiency, in late 2017, the Group established a wholly-owned subsidiary Shenzhen Expressway (Shenzhen-Shanwei Cooperation Zone) Infrastructure Environmental Protection Development Co., Ltd. as a platform for cooperation and a platform for internal resource integration for the Company and Shenzhen-Shanwei Special Cooperation Zone. The Company has conducted in-depth discussion and communication with the management committee of Shenzhen-Shanwei Special Cooperation Zone so as to make proactive efforts in identifying other urban infrastructure construction and comprehensive land

it will support and encourage all subsidiaries to conduct a study on reform of mixed-ownership such as employee shareholding plan and will attempt to commence project co-investment. By doing so, the Company can bundle the interest of employees with its development so as to further unleash the development potential of the enterprise.

8. What impact will it have on the Company if the penalty for overloaded vehicles is raised?

A: In general, enhancement in enforcement will exert positive impact. First, using several small trucks instead of a large truck to carry goods will become a trend as some logistic enterprises want to prevent overloaded risks, therefore certain positive impact will be exerted on toll revenue; second, as the number of overloaded vehicles decreases significantly, total weight of goods of trucks in a single ride decreases, further increasing the driving speed of vehicles and improving transport efficiency and transport safety of the whole society; third, shear force applied on the ground of road understructure by tires of trucks decreases, thus reducing the degree of damage to the ground and exerting certain positive impact on road maintenance.

According to the current statistics, the toll sections under its direct management lose toll revenue of approximately 3.9 billion yuan annually.

disposal of assets, based on the audit by the government on the expansion cost attributable to the free toll section of Meiguan Expressway, compensation receivables were adjusted and reduced by approximately RMB43 million in the financial statement; second, for the long term receivables from the provision of entrusted management service to Coastal Phase I by the Company, based on the latest planning of the government, such amount will be received when the payment for Coastal Phase II is settled. As such, in the accounting treatment, nearly RMB40 million of long term cash interests was provided for such amount and included in the costs in 2017. Such interests will be reversed gradually in the future.

About Shenzhen Expressway

Shenzhen Expressway was established on 30 December 1996. In March 1997, the Company issued foreign capital shares (H Shares) which were subsequently listed on The Stock Exchange of Hong Kong Limited on 12 March 1997. In December 2001, the Company issued Renminbi-denominated ordinary shares (A Shares) which were subsequently listed on the Shanghai Stock Exchange on 25 December 2001. The Company is mainly engaged in the investment, construction, operation and management of toll highways.

For further information, please contact:

SHENZHEN EXPRESSWAY COMPANY LIMITED

Ms. Catherine ZHENG / Ms. Babe LIU

Tel: (86 755) 8285 3328/ 8285 3330

Fax: (86 755) 8285 3411

Email: ir@sz-expressway.com

WONDERFUL SKY FINANCIAL GROUP

Ms. Ada DI

Tel: (852) 3970 2123

Fax: (852) 2815 1352

E-mail: prd@wsfg.hk

EVERBLOOM INVESTMENT CONSULTING CO., LTD.

Mr. Kai WU

Tel: (86 755) 8296 6116

Fax: (86 755) 8296 6226

E-mail: sgs@everbloom.com.cn