

E-Flash Report

2019 Annual Results

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2019 Annual Results Briefing

On 18 March 2020, Shenzhen Expressway announced 2019 annual results. On the morning of 19 March, the Company held the 2019 Annual Results Online Briefing. A total of 170 people, including domestic and foreign investors and media reporters, etc. participated in the briefing via Live Webcast and teleconference. At the briefing, Ms. Zhao Guiping, Financial Controller, Mr. Liao Xiangwen, President and Mr. Hu Wei, Chairman, successively introduced the financial and operational performance in 2019, the key work in 2020 as well as the core reflections on the Company's new development strategy. At the briefing, there was a good communication between the Management and the participants around the topics such as Novel coronavirus pneumonia ("NCP"), the progress of projects and the future development plan and strategy. After deducting incomparable factors, the Company's performance in this period is good. The Management hopes the Company will become a company with excellent performance, good corporate governance, healthy market image and generous returns to shareholders.

(Please go to <http://www.sz-expressway.com/uploadfiles/2020/03/20200318232007232.pdf> to read or download the materials for reference.)



Speech of Chairman

Dear Investors:

Over the last few months, the global pandemic has been preying on everyone's mind. This pandemic has affected not only everyone's lives, but also the business of companies across all industries, with Shenzhen Expressway being no exception. In the face of these impacts, the Management of Shenzhen Expressway took an active approach and stood by its social responsibilities and missions as a listed company, while anticipating and planning in advance, implementing full work resumption, and deeply analyzing its operational circumstances. Also, the Company communicated with relevant authorities on their supplementary protection policies for epidemic control and prevention, and adjusted its operational strategies, including increasing work efficiency and cutting operational costs, in an effort to reduce the impact of the pandemic. I strongly agree with this viewpoint of securities analysts: during the epidemic, while the toll free policy may affect the short-term profits of listed companies, they do not change their long-term value. The Management is full of confidence about the Company's future development, which does not derive from nothing, but the implementation results of its previous five-year strategy and the blueprint of its next.

During the strategic period of 2015-2019, Shenzhen Expressway, with its innovative design of the public-private partnership model, acquired the rights to construct and operate Outer Ring Expressway; and actively sought market investment opportunities by increasing the equity interest in Shuiguan Expressway and Wuhuang Expressway, acquiring Yichang Project and Coastal Expressway, and increasing its total toll mileage by approximately 220 kilometers. With the government repurchasing the Three Projects, the Company still rose by RMB8.6 billion in its toll highway net assets and 130 kilometers in its total mileage on equity basis, comprehensively exceeding its strategic goals. In 2017, the Company entered the environmental protection industry at a high point by investing in Water Planning Company and Derun Environment; the Group's general environmental protection scale further increased as it successively acquired Nanjing Wind Power, Baotou Nanfeng and Guangming Environmental Park in 2019, and acquired Lande Environmental earlier this year, which enabled it to successively enter the clean energy and organic waste treatment industries, and realize its environmental holding project plan. As the dual-core business operation model had taken shape, the Company's sustainable development capabilities significantly improved.

During the last strategic period, the Company's total asset scale increased by RMB13.3 billion or 42% from RMB31.6 billion in end-2015 to RMB44.9 billion; compared with the early time of the period, the Company's revenue increased by RMB2.74 billion or 80% and total profit increased by RMB860 million or 51% towards the end of the period. The Company exceeded its strategic objectives in total assets and profit and boasted market-leading profitability. It had maintained the record of cash dividend payment to its shareholders every year since its establishment and had accumulated cash dividend payment of RMB8.8 billion and a cumulative dividend payout ratio of about 44%. In 2019, the Group allegedly distributed payment of cash dividends per share of RMB0.52, which accounted for 45.37% of its earnings per share. Apart from that, the Company's value on the A-share market grew RMB15 billion, or in the region of 1.5 times, reaching a new high for the last 12 years. In view of its historic high value in the H-share market since its listing resumption, and outperformance in both the stock market and its industry on the A-share and H-share markets, the Company won honors such as the Top 50 New Fortune Best Listed Companies and became a leader in the toll road sector widely recognized in the capital market.

This year, the grim internal and external circumstances have brought about challenges for the Company in accomplishing its missions; however, I prefer to treat them as forces driving us to progress, as challenges and opportunities always coexist. "Building Shenzhen into a socialist demonstration area" and the "Guangdong-Hong Kong-Macao Greater Bay Area" are our major historic opportunities, and the Company's "dual-core business" is our greatest advantage in the face of challenges. Ipso facto, during the strategic period of 2020-2024, we will continue with the results of the transformation and development in the previous strategic period and its overall approach, insist on market-orientation and being driven by innovation, grasp opportunities of the era from the Guangdong-Hong Kong-Macao Greater Bay Area and the government initiative to build Shenzhen into the pilot demonstration area of socialism with Chinese characteristics, continue focusing on transport and urban infrastructure and general environmental business, continue striving to become a larger and stronger company, and make its strategies deeper, more effective and continuous through its "dual-core business", in a bid to push the Company to achieve greater results in its new strategic journey.

Last but not least, I would like to say that the long-term investment value of Shenzhen Expressway will become more prominent with the implementation of the new round of strategies and the deepened development of the "dual-core business". The year of 2020 is a new start, when we will clearly identify trends, directly face challenges, and create new chapters for the Company with greater courage, sense of responsibility and achievements. I hope that other than fully understanding our upcoming challenges, all of you will see our coming opportunities more clearly and support and accompany Shenzhen Expressway as always.

Chairman: HU Wei

19 March 2020

Frequently Asked Questions

1. What impact has the epidemic had on toll highway business? What measures has the Company taken to minimize losses?

A: On 15 February 2020, following the end of an additional nine-day toll-free period for the Spring Festival, the Ministry of Transport announced that with the approval of the State Council, all toll highways in China would be toll-free for all types of vehicles from 00:00 on 17 February 2020 until the epidemic ends. The toll-free policy has notably affected the business and financial indicators such as tolls, revenue and profits of the Company. The extent of the impact on this year's operating results will depend on the length of the toll-free period and the compensation measures to be taken by the government.

The toll-free policy has created favorable conditions for the prevention and control of the epidemic, reduced logistical costs, and facilitated work resumption by enterprises. The government has made it clear that in addition to the toll-free policy, relevant supporting toll-exemption measures will be introduced separately.

Affected by the NCP epidemic, the traffic volume dropped significantly in the first quarter. Moreover, amid epidemic prevention and control, supply chain disruptions, insufficient supply of raw materials and late work resumption have led to delays in the Company's highway and environmental projects under construction. In respect of cash flow, the Company has sufficient cash reserves, bank credits and bond issuance quota reserves, so there is no cash flow pressure. Shenzhen Expressway maintains a good credit rating, and the Company's existing cash reserves are sufficient to support its current operations. Besides, the government and banks are to introduce measures such as epidemic prevention and control bonds, so the Company has little pressure on financial costs.

In response to the epidemic, the Company has taken the following measures:

1. As early as 20 January 2020, the Company launched epidemic prevention and control measures in an all-round way. It set up a special team to make specific arrangements for epidemic prevention and control in all entities. Due to the effective measures, none of the Company's 5,399 employees is infected with the coronavirus.

2. The Company has actively cooperated with the government in implementing arrangements, setting up nearly 60 checkpoints on expressways managed by the Company to ensure the traffic situation amid epidemic prevention and control.

3. All entities of the Group fully resumed work from mid-February to early March. The Company was the first listed company among Shenzhen-based state-owned enterprises to fully resume production. As of 15 March 2020, the construction of all important node projects has fully resumed, and 93% of construction project workers have returned to work. 50% to 80% of the employees of other operating entities and environmental protection entities except for Hubei Magerk Company have also returned to work.

4. To address the operating problems that may be caused by the epidemic, the Management has designed targeted measures. In 2020, on the one hand, the Company will increase investments in mergers and acquisitions of the general environmental business segment as well as high-quality toll highways to offset the loss reduction. On the other hand, the Company will further increase production efficiency, take a string of measures to push down costs, and work to ensure that the projects are carried out according to the established timeline and minimize the negative impact of the epidemic.

According to the industry analysis and the Company's analysis, we have some opinions to share with you:

First, the Company's valuation will be under some pressure in the short term. The toll-free policy has adversely affected the revenue and profits amid epidemic prevention and control. But considering that the government is to release compensation measures, the long-term valuation of the industry will likely see no change.

Second, most of the expressways managed by the Company are located in the economically-developed Guangdong-Hong Kong-Macao Greater Bay Area, which enjoys great location advantages. Besides, Shenzhen Expressway has good corporate governance and strong reinvestment capacity. Therefore, the Company can quickly recover from the adverse effects of the NCP epidemic.

Third, in the past few years, Shenzhen Expressway has been successful in implementing its dual-core business development strategy. In the NCP outbreak, the advantages of the dual-core business are revealed. The dual-core business development strategy has decentralized the risks caused by the epidemic to a certain extent. In the future, the Company will continue to expand its businesses in the areas of environmental protection, finance and new energy to further offset the adverse effects of the epidemic.

Generally speaking, in the face of such an unfavorable environment, we will stay calm and make active responses to minimize the impacts on the Company. We believe that the Company will tide over this difficult time.

2. How will the Company handle the H-shares private placement price which is higher than the market price?

A: The market price of the Company's H-shares has continuously declined in recent days and now to a level below the net assets per share. Our pricing mechanism requires that the issue price cannot be lower than net assets per share.

Recently, the Company's stock price has been under pressure, which is closely related to the impact of the external financial markets and the overall toll industry policy. In the long run, the Company will see no significant change in its valuation, and its follow-up business development and external financial markets will remain relatively stable. We believe that the Company's stock price will return to

to 0.35 and that it will return to 0.35 by the end of 2020.

4. Please introduce the information of the financial leasing company recently acquired by the Company, including its current business operations, considerations for the acquisition, and the post-acquisition plan? What synergy with the existing businesses of Shenzhen Expressway will be forged after the acquisition?

A: First, financial leasing is an important tool for industry-finance integration. After entering the financial leasing sector, Shenzhen Expressway can ensure low-cost financing leasing services to support its two core businesses and the upstream and downstream of its industrial chain, resulting in good business synergy. Besides, we are optimistic about the development of the leasing sector, which can generate good returns for the Company. These are the background and purpose of our acquisition of the financial leasing company.

The Company acquired 48% of the equity in the financial leasing company with RMB152 million, becoming its controlling shareholder. Currently, the main businesses of the financial leasing company are mainly the logistics business of the original controlling shareholder and the leasing related to the upstream and downstream of its supply chain, and the its customers are some core enterprises in the upstream and downstream of its logistics supply chain. At present, the size of its leasing assets is about RMB270 million. After the completion of the acquisition, its business focus will shift to the fixed-assets leasing services and investment-chain leasing services that are related to the main businesses of Shenzhen Expressway, including transportation infrastructure construction, new energy, and environmental protection.

5. The Company's toll highways are depreciated and amortized according to units-of-usage method. Will the Company reduce the relevant depreciation and amortization costs during the effective period of the toll-free policy?

A: Accounting standards require that assets should be depreciated accordingly during the period when they are put into use. The Company carries out depreciation according to units-of-usage method. There is traffic flow during the toll-free period. The government has made it clear that corresponding compensation measures will be introduced in respect of the losses incurred during the toll-free period. The Company will conduct analysis and make relevant arrangements according to such compensation measures.

6. In view of the great impact on the toll road segment this year, what will be the profit contributions of other business segments? The profit contribution of Meilin Checkpoint Renewal Project was over RMB300 million last year. Will it maintain this scale in 2020? Will the profit contributions of Guilong Project, environmental protection projects and financial segment be the same as the same period last year or more strained?

A: The Company's revenue in 2019 is over RMB6.1 billion, including toll revenue of approximately RMB4.5 billion, accounting for about 75%. This toll revenue this year will be significantly affected by the length of the toll-free period. In 2019, the net profit generated by toll highway business accounted for about 52%, and the remaining about half of the net profit came from other than toll highway businesses, including Guilong Project, Nanjing Wind Power, Baotou Nanfeng, other environmental protection projects, Bank of Guizhou, and relevant effects of capital injection on Coastal Company.

In 2020, due to the NCP epidemic, compared with the effect of the toll-free policy in toll highway segment, the impact on wind power segment is smaller. Currently, the production, operation and orders of Nanjing Wind Power are normal; Baotou Nanfeng's power generation is not affected and the national electricity price and electricity sales policy remain unchanged. The revenue of wind power segment in 2019 is about RMB600 million. On this basis, the Company will step up efforts in production, operation and mergers and acquisitions. The net profit of Derun Environment increased by 20% in 2019, and its sewage treatment and running water supply businesses in the greater Chongqing area and the waste-to-energy plant of Sanfeng Environment are not affected by any policy as toll highway segment does. Due to the reduction in kitchen waste during the NCP outbreak, related environmental projects have also been affected. We are assessing the impact, which is expected to be smaller than that on toll highway segment.

According to the current pace of work resumption, it is expected that Meilin Checkpoint housing development project will still have a new phase of sales profit carryover. The Company is working to ensure the sales and carryover of Guilong housing development project and seeking appropriate time to transfer land. Besides, the Company will actively seek to transfer the existing small equity projects this year at a reasonable time and price. If transfers are successful, the Company's cash flow and current profits will be compensated to a certain extent.

Generally speaking, Shenzhen Expressway will try every possible way to reduce the impact of toll free policy and will do everything possible to tap potential and decentralize risks to gain good benefits.

7. The charge for ramp interchange has been cancelled. What is the share of this portion in the total mileage and total revenue? Under what circumstances will the Company adjust the unit amortization of toll highways or make provision for asset impairment?

A: The toll system reform requires accurate calculation path, so ramps connecting expressways are free. According to the Company's calculation, it does have an impact, which is not significant. Due to the expanding concessions for ETC users, we think that the growth trend of induced traffic volume in the future is obvious.

Two assumed conditions were made at the time of the acquisition of 10% equity in Shuiguan Expressway. One was the extension of the concession period of Shuiguan Expressway, and the other was toll adjustment after a government buyback. In 2019, these two conditions were not fulfilled, resulting in signs of impairment of the original fair value measurement part of Shuiguan Expressway, and impairment was recognized according to the evaluation result of the evaluation agency.

The Company reviews and compares the actual traffic volume and projected traffic volume exist every year. If there is a material difference, which is usually more than 10% and is expected to be a continuous difference, the Company will recalculate the fair value. After the calculation, if the fair value is not lower than the book value, the future depreciation difference will be adjusted by adjusting the unit amortization; if the fair value is lower than the book value, the asset impairment will be made.

8. Will the epidemic and the toll free policy bring acquisition opportunities for toll highway projects?

A: It is expected that the epidemic will have an impact on the road assets and resources of some investors. They may intend to sell such assets. The Company has formulated relevant strategies and will pay attention to the high-quality assets in the Greater Bay Area and within the nationwide key road network to seek acquisition opportunities.

9. Will the opening of Section A of Outer Ring be delayed due to the impact of the epidemic?

A: Outer Ring Project is a particularly high-quality toll highway project obtained by the Company in Guangdong-Hong Kong-Macao Greater Bay Area. The NCP outbreak has delayed the construction by about 1.5 months. Attaching great importance to the issue, the Management designed and adopted targeted measures following the outbreak of the epidemic. Currently, all contracted sections of Outer Ring Project have fully resumed operation, with a resumption rate of 100%. The Company will conduct an in-depth analysis of the project and focus on the important nodes to ensure that Outer Ring Project is ready for opening by the end of this year. With the effective measures, the Company will ensure that Outer Ring Expressway is put into operation according to the target.

10. Will the Company continue to take part in land auction and real estate development in Guizhou?

A: In respect of real estate development, Shenzhen Expressway has always adhered to the principle of not actively seeking land acquisition from the market through bidding. Real estate is not the main business of the Company, but we will seek to acquire high-quality land development resources based on the Company's core construction capabilities and the linkage between highway and municipal road construction projects. The Company has acquired 3,000 mu of land resources of Guilong, and nearly 300 mu of land resources through Duohua Bridge Project, a funded development project, which is connected to newly 2,000 mu of land resources. The Company will maximize the value of the newly acquired land resources according to the original modes, such as self-development and transfer of use rights.

11. What are the plan for environmental protection business in the Company's new five-year strategy? Is there any sub-segment?

A: At the end of the last strategic period, the asset ratio of the Company's general environmental protection was close to 20%. At the end of 2019, the Company has basically completed the formulation of a new strategic plan for 2020 to 2024.

Currently, the Company pays special attention to the following sectors in the general environmental field:

1) Wind power business: The Company acquired some wind power companies last year including Nanjing Wind Power and Baotou Nanfeng. In the future, the Company will actively seek M&A opportunities in the wind power industry chain and acquire wind farms already connected to the grid. The wind power sector enjoys franchise and stable revenue, and there is national policy support for the development of clean energy. The Company set up New Energy Division last year, which is likely to become a new energy subsidiary to lay the foundation for deeper engagement in wind power business in the next step.

2) Kitchen waste treatment business: Environmental Company, a subsidiary of the Group, acquired Lande Environmental in early 2020, whose main business is kitchen waste treatment. Up to now, Lande Environmental has obtained 16 kitchen waste PPP projects (including BOT projects) in 9 provinces and cities in China and has a designed processing capacity of about 3,000 tons per day, leading the industry. Lande Environmental obtains income from organic municipal waste collection and transportation, processing income, power generation income, renewable oil income during the franchise period, thereby recovering the investment cost and obtaining certain benefits. Besides, last year, the Company successfully won the bid for the kitchen waste treatment project in Shenzhen Guangming District Environmental Park, with a processing capacity of about 1,000 tons per day. After these two projects have fully produced, the Company has already had a leading advantage in the domestic kitchen waste treatment field.

In the next strategic period, the Company will leverage its advantages of traditional toll highway field to occupy a leading position in traditional toll highway industry based on the existing mileage of more than 600 kilometers, plus the key implementation of reconstruction and expansion of Jihe Expressway, Outer Ring Project to be opened this year, Coastal Phase II under construction, other opportunities for investment in high-quality toll highway projects, and intelligent transportation strategy. Clean energy and kitchen waste are two sub-segments of general environmental field. In respect of clean energy, the Company will develop integrated wind power business through the integration of financial leasing and wind farm operation and maintenance to make Shenzhen Expressway's wind power business a featured business.

12. **What are the management arrangements for newly acquired or established subsidiaries related to the general environmental industry? What are the follow-up management measures?**

A: The listed company governance combination is the advantage of the Company. Nanjing Wind Power and Lande Environmental had a sound organizational structure when they were acquired by the Company. The Company will send directors to their boards of directors and managers to their management teams to manage daily operations. The Company respects the original R&D personnel of the companies. Meanwhile, the Company will continue to recruit more high-quality personnel from the market and implement the Group's incentive mechanism. With the advancement of the "Double-Hundred Action" state-owned enterprise reform, the Company will ensure that personnel retention, selection and employment meet market standards and even reach the market-leading level.

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.

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