



**E-Flash Report**

**2017 Interim Results**

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**2017 Interim Results Briefing**

On 21 August 2017, the Company held the 2017 Interim Results Briefing in Shenzhen and Hong Kong respectively, a total of 103 investors, analysts and reporters attended. At the briefing, Mr. Wu Yade, President, Ms. Gong Taotao, Financial Controller, and Mr. Hu Wei, Chairman, respectively introduced the operational and financial performance in the first half of 2017, the projects development as well as the Company's future development planning. Thereafter, there was a good communication between the Company management and the participants around the topics such as progress of toll roads projects and environmental projects and future development plan and strategy. (Please go to <http://www.sz-expressway.com/UploadFiles/2017/08/25153040A4D0E1C3.pdf> to read or download the materials for reference.)





## Frequently Asked Questions

1. What is the trend of toll revenue in the second half of 2017, since the Company's operational performance is good in the first half?

A: In the first half of the year, the Group recorded toll revenue of RMB1,957 million, as the main source of revenue of the Group, representing a YOY increase of 10.8%. Among them, Shenchang Company and Yichang Company were included in the consolidated financial statements of the Group since 1 April 2017 and 15 June 2017, respectively and they contributed toll revenue of RMB33.37 million and RMB16.04 million respectively during the Reporting Period; the significant growth of toll revenue of Jihe Expressway and Qinglian Expressway benefited from the effect of factors such as the organic growth of traffic volume, the improvement of neighboring road networks and the induced growth of traffic volume after the implementation of the toll-free policy for the Three Projects; and other ancillary toll highways also recorded increases to some extent.

In the second half of the year, the Group's toll revenue will maintain the growth trend in the first half of the year and the revenue contribution from Yichang Expressway will also increase based on the judgment that the external environment will not have significant changes.

2. How much of the total income will toll revenue and environmental protection business income account for in the next few years?

A: Toll revenue will remain as the Company's main source of income for the next period of time. Shenzhen Expressway has a well-established team for toll highway business, accumulated extensive management experience, and formed a brand in the industry. By maintaining our advantages to the best of our ability, we will continue to make our company bigger and stronger while studying the layout of the industry restructuring to meet the long-term sound development needs of Shenzhen Expressway.

At present, it's difficult to estimate the future income of environmental protection business. But we set a goal for the business development scale, that is, by the end of the strategic period of 2019, the scale of environmental protection industry will be no less than 20% of the total assets of the Company.



3. Will other toll highway projects of the Company be bought back by the government in the future?

A: Based on the overall consideration of the planning of the economy and transportation, the Shenzhen Government has pushed forward new traffic arrangements and adjustment plans in recent years, which have involved three expressways, namely Nanguang, Yanba and Yanpai Expressways operated, invested or managed by the Group in Shenzhen and may involve other projects in the future. The Company's business objective is to obtain reasonable incomes and returns by leveraging its core competencies, industrial experience and professional skills while effectively controlling and managing its risks. And the business models and paths to achieve the goal can be diversified. Government repurchase will put some pressure on the Company, but will also bring about opportunities. In some cases, the Company can take part in the development of the surrounding lands, and thus it is a good opportunity to realize the business value of original resources and expand the development space. Therefore, the Company will actively seek the understanding and support of the government, and actively communicate and negotiate with the relevant government departments to develop a reasonable and feasible program to achieve win-win development.

4. How is the progress of Meilin Checkpoint Renewal Project?

A: Demolition works have been basically over.

The Company and the major shareholder are discussing cooperation with third parties, and the specific way of cooperation has not yet finalized. However, we determined that the project will start construction at the end of this year, begin pre-sale next year, and complete the delivery of part of the buildings the year after next. The entire project is divided into 3 to 5 phases of progressive development.

5. How is the Company's future dividend policy?

A: Taking into account the current capital requirement and external capital environment and other factors, the Company has maintained a dividend payout ratio of 40% to 50% in the past.

The Company will maintain a stable dividend policy in the future no matter how the main businesses will be developed, with the dividend rate remaining at more than 40%. If there is a special income in a year, the Company will also consider distributing a special dividend.



6. What impact under the preferential policy of 15% discount on toll fees for trucks will have on the Company?

A: From 0:00 on 1 July 2017, on the premise of keeping the basic rate of the concentrated charge for current freight vehicles concentration and the charging rules unchanged, trucks in 43 expressways in Guangdong Province can enjoy 15% discount on toll fees. But they should satisfy the following five conditions to enjoy such a discount: legally loaded freight vehicles; to use the national standard Unitoll-GD cards to pay toll fees; license plate number is consistent with the registration number of the Unitoll-GD card; not included in the toll-escaping black list of Guangdong expressways; to pay the fee only based on the toll-by-weight rules.

The Company's projects are not covered by the preferential policy.

Guangdong Province is currently soliciting opinions on the implementation of the policy from enterprises. In order to take responsibility for company development and maintain the interests of shareholders, the Company has reported to the government on our relevant demands, such as implementing preferential policy at different period of time, and the government to give reasonable compensation.

7. What is the impact of the "Guangdong-Hong Kong-Macao Greater Bay Area" planning on the Company?

A: Guangdong-Hong Kong-Macao Greater Bay Area refers to the urban agglomeration comprised of 9 cities of Guangzhou, Fuoshan, Zhaoqing, Shenzhen, Dongguan, Huizhou, Zhuhai, Zhongshan, Jiangmen and 2 special administrative regions of Hong Kong and Macao. It is the world's fourth largest bay area followed the New York Bay Area and San Francisco Bay Area in the United States, and the Tokyo Bay Area in Japan.

On the occasion of the twentieth anniversary of the return of Hong Kong to China, the National Development and Reform Commission and the three governments of Guangdong, Hong Kong and Macao jointly signed the *Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Bay Area* to chart a blueprint for the development of the Bay Area.

The primary task of Guangdong-Hong Kong-Macao Greater Bay Area planning is to overcome the weaknesses of transport infrastructure and promote the interconnection of the three regions, which will bring about trillions of infrastructure investments.

Over the years, the Company has accumulated rich experience and resources in the construction of infrastructure projects. We believe that, with the further implementation of the Guangdong-Hong Kong-Macao Greater Bay Area planning, Hong Kong's deep involvement in the "the Belt and Road" development, the promotion of the interconnection of infrastructure in Guangdong, Hong Kong and Macao, increasing population density, and accelerating urbanization and population overflows, the traffic flow of the Company's own road sections and the expected income of its real estate projects will increase. At the same time, the accelerating construction of infrastructure



in the Great Bay Area will spur the environmental protection industry to grow faster and bring about integration opportunities, which will help the Company to obtain environmental protection projects in the Great Bay Area and form regional advantages.

The Company hopes to contribute to the development of Guangdong-Hong Kong-Macao Greater Bay Area and help to build it into a world-class urban agglomeration.

8. Does the Company have any plan for overseas acquisitions since it issued USD debentures last year?

A: The Company seized a very good window period to issue overseas debenture of US\$300 million at fixed interest rate with a maturity of 5 years in July 2016 and arranged to lock in the foreign exchange rate of the above debentures. The total cost accounted for 4%.

The Company currently has no plans to acquire overseas equity projects.

In the future, the Company will maintain a reasonable capital structure, a good credit rating and sound financial position. On this basis, the Company will step up its efforts in exploring multi-level and multi-channel financing instruments of capital market, and continue to improve the domestic and overseas financing channels and the centralized management platform for cross-border funds, thereby providing financial reserves for the development of the Company.

9. What are the investment directions of and how much is the rate of returns of the projects in industrial funds established by the Company?

A: Transportation infrastructure industry and environmental protection industry are capital-intensive industries, the establishment of investment and M&A funds can help the Company broaden its financing channels and enter into new industries faster with social capitals; optimize the financial structure of listed companies and conduct better market value management; better identify and develop quality projects; and establish mechanisms to improve efficiency and achieve professional management.

Funds mainly invest in transportation infrastructure (roads, bridges, rail transportation, etc.), other infrastructure (industrial parks, urban pipe networks, water supply and drainage, etc.); and water environmental protection industry (water pollution treatment, watershed management, etc.), solid waste treatment industry (refuse disposal, hazardous waste treatment, soil remediation, food waste disposal), waste gas treatment (waste gas treatment technology) and other emerging environmental protection industries as well as some sub-sectors that provide equipment and technical support to environmental protection industries.

The yield of the fund investment projects is generally higher than the industry average and the benchmark requirements of the Company's investment projects. The Company requires that its current rate of return on project investments is not less than 8%.



10. Will the Water Planning Company take part in the construction of Xiongan New Area in the future as it is a hot spot for development?

A: It is understood by the Company that Water Planning Company has contacted with Xiongan's government departments. The Company's current businesses are mainly in Guangdong, and we hope that in the future, with the business development of Water Planning Company, the Company can participate in more regional businesses.

11. How is the Company's incentive schemes going?

A: Equity incentive is an important goal of our strategy for the Period. We should realize a long-term incentive mechanism for employees, including but not limited to equity arrangements.

The Company has launched a new round of researches on long-term incentive plans, and has been in communication with the relevant parties. We will spare no effort to promote the establishment of a long-term incentive mechanism, and strive to complete the long-term incentive scheme for our staff or key employees for the Period by the end of this year.

12. Ideas on the Company's strategic planning.

A: The Company recently reviewed the implementation of strategies for the two and a half years, and felt generally satisfied. However, we have put forward higher requirements for the future.

Since its establishment in 1996, Shenzhen Expressway has been listed in Hong Kong and Chinese Mainland, and has gone through a history of 20 years as A + H shares. Over the past 20 years, the staff of Shenzhen Expressway has formed brand and advantages in the investment, construction, operation and management of toll highways field, and accumulated management capacity, management talents and experience in this regard. So we have the advantages in the field. Shenzhen Expressway's management, including middle-level management, is a group of down-to-earth people with ambitions and entrepreneurial spirit. It is because of such a group of people, as our backbone forces, that Shenzhen Expressway has been thinking about our future development all the way. Shenzhen Expressway has a profound understanding of the original expressway industry, and has a sober judgment about the development of new industries in future. On this basis, we first determined to maximize the advantages of our dominant industry--toll highways. To be honest, this industry has encountered some problems, such as toll free on



holidays, diversions of road network, the repurchase by Shenzhen local government, and the recent preferential policy imposed on the toll fees of truck by the government to boost the economy and support the supply-side structural reform. However, we have advantages and experience in this industry, relatively high industry credit, and relatively strong financing capacity. Therefore, we have obtained and will continue to actively obtain quality projects that have good returns such as Outer Ring Expressway, Yichang Expressway and Shuiguan Expressway or some projects under negotiation.

For the environmental protection industry, the Company thinks the transformation is a must. The investment, construction and operation of the environmental protection business have been formally approved by the SASAC and the major shareholder in terms of the business scope. The investment, construction and operation of the environmental protection industry will support and help the sustainable development of Shenzhen Expressway.

The Company will firmly follow the market-oriented path. Though it is a state-owned enterprise, Shenzhen Expressway obtained its projects through the process of bidding, or through the brutal market competition and marketing from its very first road project Meiguan Expressway. Each of the 17 expressways currently owned by Shenzhen Expressway, including environmental protection projects, are secured by the Company by virtue of its accumulated development strength, brand, management and business advantages and business model design capabilities. During this strategic period, we have to establish the long-term incentive mechanism for our key staff. The long-term incentive mechanism includes but not limited to cash and equity. We are currently in close communication with the relevant parties and hope that the long-term incentive mechanism for our key staff can be implemented this year, so as to provide system guarantee for our transformation and development and retaining talents.

In the longer-term strategic planning, the Company proposed to build intelligent transportation, intelligent environmental protection, creative company, and to integrate modern scientific and technological achievements, artificial intelligence, Internet information into the operations, management, and maintenance of existing expressways and the construction of future projects. We clearly set a goal that in the construction of the new large Outer Ring Expressway, we must reach the first-class construction level and appearance in China, and build the Expressway into an energy saving, environmentally-friendly and intelligent one. For the environmental protection business, we also proposed intelligent environmental protection, and we will make full use of existing scientific and technological achievements to improve weak links and focus on future.

Every business segment of the Company including the environmental protection business should target sub-sectors and become leaders in market segments of



domestic industries either in terms of management, operations or products. Take the environmental protection industry for example, the Company, after entering the industry, should select one or two sub-sectors and form business models and creates brands in those sub-sectors, and then duplicate successful models so as to reach the goal of being the leader in the market segment in China in 3 to 5 years.

We are very grateful to investors for their attention and support to our Company. Though Shenzhen Expressway's development ideas can be understood by the majority of investors and shareholders, some short-term and long-term goals may not coincide with what the investors think during a short period of time. However, in terms of long-term development, the Company's strategic objectives will give investors better returns. Hope all the investors will continue to pay attention to and support Shenzhen Expressway.

### **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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