



E-Flash Report

2018 Interim Results

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2018 Interim Results Briefing

On 20 August 2018, the Company held the 2018 Interim Results Briefing in Shenzhen and Hong Kong respectively, a total of 86 investors, analysts and reporters attended. At the briefing, Ms. Gong Taotao, Financial Controller, Mr. Wu Yade, President and Mr. Hu Wei, Chairman, respectively introduced the financial and operational performance in the first half of 2018, the Company's current 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 projects and future development plan and strategy.

(Please go to <http://www.sz-expressway.com/UploadFiles/2018/08/17181537E26F5E00.pdf> to read or download the materials for reference.)





Frequently Asked Questions

1. How was the operating performance of the Company in the first half of 2018? What business is the main source of the growth?

A: In the first half of 2018, the Group recorded revenue of approximately RMB2.68 billion, representing a YOY increase of 16.91%; whereas the net profit was RMB969 million, representing a YOY increase of 37.42%. It was mainly due to the growth of toll revenue from the existing toll highways operated and invested by the Group, the income contributed by newly acquired projects such as Derun Environment, Yichang Expressway, etc. and the compensation income of RMB131 million from Meilin Checkpoint Renewal Project.

In the first half of 2018, the Group recorded toll revenue of RMB2.46 billion, representing a YOY increase of 14.42%, accounting for 91.97% of the Group's revenue, which is the main source of revenue of the Group. In particular, the increased toll revenue of RMB225 million during the Reporting Period was resulted from the consolidation of Shenchang Company and Yichang Company into the Group's financial statement since 1 April 2017 and 16 June 2017 respectively. The toll revenue of other ancillary toll highways recorded a YOY increase of 4.07%, most of them recorded certain extent of growth which was mainly due to the organic growth of traffic volume, the induced growth of traffic volume after the implementation of the toll-free policy for the Three Projects and so on.

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 no less than RMB5.7 billion, with the total of operating costs, management expenses and selling expenses (excluding depreciation and amortization) 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 the Three Projects) and the financial cost of the Group will increase on a YOY basis.

The main sources of income in 2018 are as follows:

- 1) continuous steady growth of toll revenue from existing toll highways,
- 2) full-year profit contribution from new projects (such as Yichang Project and Derun Project),
- 3) continuous revenue contribution from Guilong property project and the transfer income of Guilong land.
- 4) the net profit of RMB131 million regarding the adjustment of demolition compensation of Meilin Checkpoint Renewal Project,
- 5) the asset disposal gain of approximately RMB1.6 billion recognized by the Company based on the buy-back of the Three Projects by the government in the second half of the year.



2. What is the purpose of United Land Company to introduce strategic investors? What is the impact of the introduction of the strategic investors on the Company?

A: XTC and the Company intended to introduce a professional real estate developer as a strategic investor through capital increase of United Land Company. It is mainly to enhance the ability of United Land Company in real estate development, sales, management and operation, so as to ensure the quality of the project, reduce project risks, and improve project management, resulting in ultimately improving the profitability of the project and maximizing financial goals.

The introduction of strategic investor will not result in any change in the scope of consolidation of the Company. After the implementation, United Land Company will receive RMB2.9 billion in cash, which will give priority to repayment of the original shareholders' loan, of which the Company will receive approximately RMB1,421 million in cash. After introducing the strategic investor, first, the Company will increase the capital reserves and improve the capital structure first. Second, the Company will recover the cash in advance, which helps to reduce capital cost and debt-to-asset ratio. Third, the brand developer can control costs and maximize the financial targets of the project by fully utilizing their rich industry experiences in sales and property management.

3. How many phases will be launched for Meilin Checkpoint Renewal Project? What impact does the new property policies recently implemented in Shenzhen have on Meilin Checkpoint Renewal Project?

A: Houses of the project occupy a total site area of 244,000 square meters, among which Phase I consists of 115,000 square meters (including indemnificatory housing of approximately 40,000 square meters invested by the government), Phase II of 66,000 square meters and Phase III of 63,000 square meters. Another 240,000 square meters for the rest of apartments, commercial properties and offices will be developed in Phase III. Part of commercial properties are owned and operated by the project company.

In response to Price Limit Policy of Primary Real Estate, the Company will reduce the impact and maximize revenue through introduction of strategic investor and self-owned commercial properties.

On 31 July, Shenzhen issued the Notice on *Further Strengthening on Regulations and Control on Facilitating Stable and Sound Development of Real Estate Industry* (《关于进一步加强房地产调控促进房地产市场平稳健康发展的通知》), which provides that: in relation to additional supply, it is regulated that commercial properties built on newly supplied land are allowed to rent only rather than to sell them.

After the oral communications between the Company and relevant departments, the land parcels of Meilin Checkpoint Renewal Project were acquired prior to the policy and are not affected by the policy. The actual final impacts are subject to further confirmation.



4. How was the progress of repurchasing the Three Project? Which way will be adopted at higher possibility? When will the gains or losses on disposal of assets be recognized?

A: According to the agreement, the Company and relevant government authorities will restart negotiation in relation to repurchase of the Three Projects by the end of this year. The government's original intention is to repurchase the Three Projects and conduct municipal transformation for the sake of optimizing the overall traffic layout of Shenzhen Municipality. For the time being, there were no significant changes on the Shenzhen Municipal Government's enhancement program of overall traffic layout, so it is expected that the government will probably choose the repurchase offer.

If the government selects the buy-back scheme, the Company will recognize gains on disposal of assets amounted to approximately RMB1.6 billion. According to accounting rules, such gains on disposal of assets will be recognized in 2018 if it is disposed of within the year.

5. How was the progress of the reconstruction and expansion of Jihe Expressway?

A: At present, the traffic volume of Jihe Expressway is saturated (In the first half of 2018, the average daily traffic volume of Eastern Section and Western Section were 280,000 and 210,000 respectively). In order to ensure road safety, improve the efficiency of traffic and enhance project profitability, the Company planned to expand the Jihe Expressway.

Under the present plan, the investment in such project is magnificent since it is likely to rebuild a new expressway, so the Company is actively discussing the specific plans with the government, including the design, construction commencement reports as well as the model of investment and financing. At the same time, various aspects of reconstruction and expansion of the project are being carried out, including total costs and extension of tolling years.

6. What are the expansion goals of toll highway projects and environmental projects in recent years? Will there be any project implemented within this year?

A: In relation to toll highway business, the Company will actively promote the research and implementation of intelligent transportation, in order to promote the efficiency of traffic and guarantee the steady growth in toll revenues. Moreover, the Company will established the key projects such as Outer Ring Expressway, Coastal Phase II and Jihe Expressway Expansion as great exemplar and paragon, and focus on building quality projects, safety projects, clean government projects, century projects, give full play to professional advantages, continue to exercise a good team, to ensure that the advantages of the project continue to lay. In addition, the Company will also maintain a healthy relationship with the government, carefully plan well-organized business and operation models, as well as actively participate in the strategic planning of Shenzhen traffic network and infrastructure construction in the Shenzhen-Shanwei Special Cooperation Zone. The internal rate of return for investment in toll highway projects is not less than 8%.



Regarding the environmental protection business, the Company will establish strategic cooperation with present partners and industry-leading enterprises to accumulate professional ability in expanding professional teams and related projects. The Company will also enhance the in-depth cooperation with Longli County, Guizhou and Shenzhen-Shanwei Special Cooperation Zone in order to become an industry leader in water remediation and solid waste treatment in the short term. By the end of the strategic period in 2019, the scope of environmental protection business is not lower than 20% of the Company's total assets.

The Company is negotiating for the projects in Shenzhen-Shanwei Special Cooperation Zone, Longli County, Guizhou and Zhanjiang to strive for projects being implemented within this year.

7. Will depreciation of Renminbi cause any impact on the Company?

A: Under the influence of the Sino-US Trade Friction, there was a relatively large depreciation in Renminbi since June, which brought the following main impacts to the Company: 1. the Company issued a 5-year overseas debenture amounting to USD300 million on 18 July 2016. To mitigate the risks related to fluctuation in USD exchange rate, the Company entered into a foreign exchange swap transaction to lock in foreign exchange risk. During the Reporting Period, due to the depreciation of RMB in June, gains from changes in fair value of the swap transaction instrument and exchange losses recognized by the Group basically achieved financial hedging; 2. the Company announced the proposal of H-share dividends and the payment rate of H shares were determined in May. However, rapid depreciation in RMB resulted in part of the exchange losses after the H-share dividends being distributed in July; based on the consideration of the lower HKD loan interest rate at around 1%, the Company borrowed a loan of more than HKD200 million. Foreign exchanges risk of such loan was not locked in and will probably result in exchange losses. The amount of losses was relatively small and the overall risks can be controlled.

8. Is there any definite cooperation project between the Company and Baidu?

A: The Company signed a strategic cooperation framework agreement with Baidu on 26 April 2018. According to the Agreement, the two parties intended to integrate resources relying on the Company's operational management experience and resources together with Baidu's big data, artificial intelligence, and internet technology advantages. Simultaneously, the Company can explore the opportunities for carrying out extensive cooperation in smart expressway and intelligent environmental protection, while the national business investment projects can also be jointly developed, in order to enhance the implementation and empowerment of Baidu's 'AI CITY' strategy in transportation and environmental protection industries, and promote deep intelligent application of 'artificial intelligence + traffic and environmental protection' in Shenzhen Expressway. The definite proposal is jointly developing and no projects were implemented at this stage.



9. Did the Sino-US Trade Friction cause significant impact on toll highway industry?

A: The traffic sector, especially the expressway and railway, is relatively defensive, in particular the toll highway industry. We believe that the impact brought by the Trade Friction was relatively small.

Toll highway projects in different regions face different influence arising from changes in port trading due to the variation in vehicle models proportion. Generally, projects dominating small vehicles passage face relatively smaller impact, while project with higher proportion of freight cars may be subject to greater impact due to the decline in import and export. The Trade Friction had a slight impact on the Company since majority of our highways are mainly targeted at small vehicles, with a proportion of over 90%.

If there is great depreciation in RMB caused by the Trade Friction, it will definitely influence the US dollar bond of the Company to a certain extent. However, as the Company had entered into a foreign exchange swap transaction to lock in foreign exchange risks at the beginning of the bond issuance process, impacts will not be that significant.

10. Will there be any impact caused by transfer of transportation from highway into railway on the toll highway projects?

A: Starting from the second quarter this year, the country has actively promoted 'transfer of transportation from highway into railway', mainly for environmental consideration, targeted at large-burden materials such as coals, steel and sandrocks which create more dust. At present, relevant supporting documents and facilities of 'transfer of transportation from highway to railway' are subject to further improvement. Since the toll highways of the Company in Shenzhen mainly comprise small vehicles, and freight cars travelling to Hong Kong are basically container vehicles, also the number of freight cars containing the aforesaid large-burden materials on other highways is limited, it is expected that such policy will not cause significant impact in short terms. The Company will continue to closely monitor the development of relevant policies and changes caused on traffic volume of the Company's toll highways, and timely adjust the operating strategies.

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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