



E-Flash Report

2015 Annual Results

GUIDANCE

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2015 Annual Results Briefing

On 21 March 2016, the Company held the 2015 Annual Results Briefing in Shenzhen and Hong Kong respectively, a total of 105 investors, analysts and reporters attended. At the briefing, Ms. Gong Taotao, Financial Controller, and Mr. Hu Wei, Chairman, respectively introduced the operational and financial performance in 2015 and the Company's future development prospects and planning, as well as work ideas and key points. Thereafter, the management communicated with the participants around the topics such as operational performance, progress of projects, future development strategies, and dividend policy.

(Please go to <http://www.sz-expressway.com:82/UploadFiles/2016/03/182321489FADDAF4.pdf> to read or download the materials for reference.)





Frequently Asked Questions

1. Will the government adjust the toll mode on other projects just as same as the toll adjustment on Nanguan Expressway, Yanpai Expressway and Yanba Expressway (the “Three Projects”)?

A: Based on the overall demands for economic development and transportation planning, the Shenzhen government adjusted the toll of the Three Projects in two phases and made a compensation to the Company which is reasonable in the prevailing market. The Adjustment meet the objective needs of Shenzhen’s economic development and urbanization to a certain stage, which will lower the transportation and logistic costs of the Shenzhen citizens, improve the efficiency of the transport system and enhance the urban traffic service capacity, form a more reasonable traffic pattern, as well as release the land along the expressways, promote intensive land development and industrial upgrading in the region, and Shenzhen’s urban transformation and the integration of internal and external development will be accelerated.

It is understood, except Jihe Expressway, the other expressways in Shenzhen are all included in Shenzhen Freight Traffic Organization Plans, and they do not rule out the possibility of toll adjustment. However, the government does not negotiate with the Company on the specific project at this moment.

2. What are the main sources which contribute to the Company’s revenue in the future?

A: The revenue of the Company mainly comes from two sources. The one is toll revenue, which is the main source of the Company’s revenue in the future, including the contributions from the organic growth of existing toll highway projects and the new projects, such as Section A of Outer Ring. The other is other business revenues, including the contributions from entrusted construction and operation business, land development such as Guilong Project, and new industry projects.



3. Why did the Company make impairment provisions for Qinglian Project? What's the impacts on it?

A: In the fourth quarter of 2014, Guangle Expressway and Erguang Expressway, in parallel with Qinglian Expressway, have been completed and opened to traffic. However, the construction of the relevant connection with Qinglian Expressway has been delayed, leading to more diversion impacts than expected. It is estimated that the potential growth of the toll revenue from Qinglian Expressway will be lower than expectation.

According to the "Accounting Standards for Business Enterprises" and the Group's accounting policies, when there appear signs of asset impairment as at the balance sheet date, including internal report of the enterprise evidencing that the economic performance of an asset is and will be less than expected, showing that the asset may be impaired, the recoverable amount shall be estimated. When the recoverable amount of such asset is lower than its book value, a provision shall be made for the difference between the recoverable amount and the book value.

According to the operating status of Qinglian Expressway and the relevant requirements of the Accounting Standards for Business Enterprises, by the end of 2015, the Company determined that there were signs of impairment to the book value of the asset in relation to the concession rights of Qinglian Expressway and impairment assessment should be carried out. To this end, the Group engaged an independent professional traffic research institution to forecast the future traffic volume and revenue of Qinglian Expressway, and engaged a professional valuer to assess the value of the assets as at 31 December 2015 in relation to the concession rights and the equity of the shareholders of Qinglian Company. Based on the forecast and the results of assessment made and conducted by the professional institutions, as at 31 December 2015, provision has to be made for the impairment of RMB620 million to the premium of the acquisition of the concession intangible assets of Qinglian Expressway in previous year, resulting in a decrease of the Group's net profit for 2015 of RMB360 million.

Meanwhile, based on the operating conditions of Qinglian Expressway in 2015 and the projected result of an independent professional traffic consultant on its traffic volume and revenue in the future, the Group estimates that it may not be able to generate enough taxable incomes in the foreseeable future that the deductible losses will be compensated for deduction of provision of the operating loss of deferred tax assets in prior years. According to the relevant requirements of the Accounting Standards for Business Enterprises, the Group reduced the carrying amount of deferred tax assets of Qinglian Company by RMB46 million at the end of 2015, resulting in a decrease of the Group's net profit for the Reporting Period of RMB35 million.

The reduction of net profit of the Group resulting from the abovementioned matters totaled RMB390 million.



4. How is the progress of Outer Ring Project?

A: The Company has a pre-emptive right for the development of Outer Ring Project. As the project requires large scale of investment with high construction cost, the Company is focusing on improving areas such as design proposal and investment structure and undergoing discussion and negotiation for feasible investment, construction and management proposals with the government authorities, serving to achieve a balance between corporate and social benefits. In order to cooperate with the government for the overall work planning and arrangement in relation to expressway construction, the Board has approved the Group to carry out the construction organization works for Outer Ring Project in July 2014 and October 2015 respectively, on the condition that the Shenzhen government has specified the ultimate responsibility for Outer Ring Project and has made arrangements for the construction funding.

After careful and thorough discussion and negotiation between the Company and government authorities, the parties eventually reached a consensus on matters relating to the investment, construction and management of Outer Ring Project (Coastal Expressway – Shenshan Expressway section) (“Section A of Outer Ring”) on 18 March 2016 and the related parties entered into Concession Agreement and Joint Investment and Construction Agreement. According to the current proposal, the investment budget for Section A of Outer Ring is approximately RMB20.6 billion, among which, the Company will invest RMB6.5 billion and receive the operating revenue and undertake the rest part of investment budget, relevant taxes and risks of the project for a term of 25 years, and the cost overruns will be assumed or financed by Shenzhen Special Economic Zone Construction and Development Company Limited, a company established and wholly-owned by the Shenzhen government.

The proposal for Outer Ring Project is a toll highway project undertaken by the Group based on PPP mode, which can effectively maintain a balance between public welfare and reasonable returns for commercial investment of infrastructure and provide quality service to the public in the most cost-effective way, thereby realize a win-win situation for the public, the government and the Company.

The internal rate of return (“IRR”) on new toll highway project in Shenzhen region set by the Company is no less than 8%. The Company will ensure the IRR on Outer Ring Project by reasonable funds arrangement as well as grasping the pace of investment.

The abovementioned proposal is subject to the approval at the general meeting of the Company.



5. What is the progress of Meilin Checkpoint Renewal Project? What is the subsequent development plan?

A: After the implementation of toll-free for part section of Meiguan Expressway since April 2014, the government gradually carries out urban renewal work along the line. As the original owners of the part of land along the line, the Company and Shenzhen International have the opportunity to participate in the Meilin Checkpoint Renewal Project and to realize the business value of corporate resources. Pursuant to the approval of the general meeting of the Company, the Company and XTC Company (a shareholder of the Company, a wholly-owned subsidiary of Shenzhen International) jointly established United Land Company to carry out the project and be responsible for related works such as land acquisition. The Company and XTC Company own 49% and 51% equity interests of United Land Company respectively. United Land Company entered into land transfer agreements regarding Meilin Checkpoint Renewal Project Land Parcels with Longhua Administration Bureau, Shenzhen UPLRC before 30 June 2015, and paid 30% of the land premium and obtained the land use right.

According to the land transfer agreements, the Meilin Checkpoint Land Parcels are a site of approximately 96,000 square meters which are designated for residential and commercial use, land use rights of which are granted for a term of 70 years (with part of the land use rights for commercial use lands granted for a term of 40 years), and with a permitted total gross floor area of not more than 486,400 square meters (including public ancillary facilities, etc.). The total Land Premium is RMB3.567 billion. According to current progress of related work, it is estimated that the total land cost of the project land parcel would be RMB5 billion to RMB5.2 billion, including the total land premium of approximately RMB3.567 billion, relocation compensation for the properties on the land, preliminary planning costs, and relevant tax. Currently, the negotiation between United Land Company and the operators and tenants of the existing properties on the land is still underway. It is planned that the agreements would be executed and the cleaning up works would be commenced in this year.

The Meilin Checkpoint Renewal Project Land Parcels are situated at a geographically advantageous location with certain advantages on land price over the market prices of the peripheral areas. It also has better investment value and appreciation potential. The Company is actively conducting industry policy research, exploring the methods for value realization and liquidation of the land. Given the strategic positioning and commercial interests of both shareholders of Project Company can be satisfied, the various possible ways, such as transfer of the equity interest of the Project Company or participate in further development by the Project Company, will be considered afterward to realize the value of the project. The emphasis in work of this year is to promote the introduction of cooperation parties with Shenzhen International.



6. About the Company's future development plan.

A: In a long period of time in the future, toll highway will still be the core business and major profit source of the Group. However, under the environment of economy development and policy change, the toll highway industry saw the boosting costs of many aspects such as investment and construction, maintenance and daily operations. The number of toll highway projects in traditional mode with commercial value has been decreasing. Facing the evolving operating conditions and policy environment, on the one hand, the Company has been consistently and actively communicating with competent government authorities to jointly explore new models of the industry development to enable a balanced and sustainable development of the Company. On the other hand, leveraging the experience and skills gathered within the industry, the Company can select different business models and approaches to obtain reasonable revenue and returns along with effective risk control and management.

Based on the in-depth study of the changes in the development of both internal and external environment, the Board of the Company in June 2015 approved the "2015-2019 Development Strategies". The Company will pursue a market-oriented and innovation-driven strategy. It will continue to seize the opportunities of this era to consolidate and strengthen the core business of toll highway and actively explore and fix the new direction of the industry so as to achieve the sustainable development of the Company.

In respect of the core business, the Company will actively push forward the development of its toll highway business and at the same time further expand the development in the four areas of investment, construction, operation and maintenance, fostering the capital advantages and management abilities to drive the growth of its core business. As for the cultivation and development of the core business, the Company will prioritize to increase the shareholding of the existing projects and focus on considering projects located in privileged regions and regions related to the existing businesses, and closely monitor the investment prospect and opportunities of the projects in the main route of national highways which have commenced operation or will soon commence operation.

In respect of the exploration of new industries, the Company will comply with the PRC's policy guidance on industry development, effectively leverage the advantages in terms of corporate resources, fully unleash the core competitiveness of the Company and demonstrate it as a well-structured and duplicable principle, so as to actively explore and engage in investment in new industries which have a higher return than the core business. This will enable the Company to achieve the target of stabilizing its performance growth in the near



term and rendering new growth momentum in the long run. At this stage, the Company has set the “construction and operation service provider of urban and transport infrastructure” as its main business direction, and the direction of environmental protection industry with the contents of water environment treatment, solid waste treatment, and so on.

In respect of the investment and financing management, the Company will actively explore new investment modes. Aiming to reduce the consolidated capital cost and maintain a reasonable capital structure, the Company will strengthen the use of financial instruments in the capital market and consolidate the internal planning and management of funds so as to fully demonstrate the Company’s advantages in investment and financing and enhance the overall competitiveness for the business development of the Company.

In respect of the organization strength and human resources, the Company will commit itself to building an organization structure which can enhance the efficiency and conform to the new development strategies. The Company will also devote itself to creating a human resources management system which can enhance the staff motivation and in line with the best interest of the Company as a whole. The Company will also actively study and push forward the establishment and implementation of mechanisms such as employee stock ownership plan and share incentives to achieve the mutual growth of the enterprise, staff and shareholders’ values.

7. What is the main reason for the Company to invest in Guizhou Bank?

A: The proposed subscription of additional shares in the Bank of Guizhou, as a strategic investment in line with the Company's development strategy, is conducive for the Company to optimize its asset allocation and integrate industrial and financial capitals in pursuit of sound synergy for its subsequent infrastructure investments and operations at relevant regions. Meanwhile, given the sound cash dividend capacity, management mechanism and the headroom for future development, and the reasonable issue price, the Investment is expected to generate desirable return on investment and/or potential capital gains.



8. About the replacing the business tax with value-added tax (“VAT”) scheme.

A: Since November 2012, the VAT has been applicable to the advertising revenue of the Group with the tax rate of 6%. At present, other businesses of the Group have not adopted the VAT yet. However, it may fully implement in this May. If so, the income, cost, profit and cash flow of the Company will be affected. The Company is required to formulate the business and financial management procedures and adjust accounting and audit treatment as well as tax system so as to be aligned with such policy. It is also required to enhance the management on supplier, contract design and other aspects. The intention of the scheme formulated by the government is to reduce corporate taxes. Currently, it is hard to assess the actual amount of the influence due to no specific terms.

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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