



深圳高速公路股份有限公司

Shenzhen Expressway Company Limited

# 越 Annual Results Presentation 2008

逾越 · 超越 · 卓越

April 3, 2009



**Annual Results & Performance**

---

**Development Planning & Prospects**

---

**Appendices**

---



# 逾越

*It can mean "jump over" or "overcome" – to jump over or overcome obstacles. It demonstrates the fact that the Company has come across a number of obstacles both externally and internally in 2008, but has managed to overcome them one after another through adopting a proactive, pragmatic approach and with persistent hard work in resolving the challenges that it faced.*



## Results Highlights

## Annual Results & Performance

<i>(Unit: RMB' million)</i>	<b>2008</b>	<b>2007</b> <i>(restated)</i>	<b>Change</b>
<b>Revenue</b>	<b>4,242</b>	3,846	10.3%
<b><i>Including: Toll revenue</i></b>	<b>985</b>	966	2.0%
<b>Profit attributable to equity holders of the Company (Net profit)</b>	<b>503</b>	622	-19.2%
<i>*FYI: net profit before adoption of IFRIC 12</i>	580	674 <i>originally stated</i>	-14.0%
<b>Earnings per share (EPS)(RMB)</b>	<b>0.231</b>	0.285	-19.2%
<b>Return on equity (ROE)</b>	<b>7.1%</b>	9.0%	a decrease of 1.9 percentage points
<b>Payout ratio (RMB/Share)</b>	<b>0.12</b>	0.16	

*Prepared in accordance with HKFRS*

- \* The Group has adopted IFRIC 12 in preparing the financial statements under HKFRS since 2008 and has made comprehensive retrospective adjustments for the previous years pursuant to IFRIC 12. Due to the provision of maintenance/resurfacing obligations and other reasons, such accounting policy change led to the decreases of RMB76 million and RMB52 million in profits for 2008 and for 2007 respectively.



## Related Factors Affecting The Profit

## Annual Results & Performance

- The cessation of capitalization for relevant borrowing interests upon the commencement of operation of new projects caused the significantly increase of finance costs.
- The Group's profits from entrusted construction management services decreased as compared to 2007.
- The profits from toll highways decreased considerably caused by the slowing growth rate of toll revenues and the increase in operating costs:
  - the change of macro economy
  - adoption of the Green Passage Toll Free Policy
  - the decreases in toll revenues caused by maintenance and repairs on connecting highways and changes in the road network
  - the expansion in the scale of the maintenance works on highways
  - the lower gross margins of newly opened projects
- Adoption of the new tax rate and other change of taxation policy



## Related Factors Affecting The Profit

## Annual Results & Performance

<i>(Unit: RMB' million)</i>	<b>2008</b>	<b>2007</b> <i>(restated)</i>	<b>Change in amount</b>
Finance costs	<b>255</b>	150	105
Profit from entrusted construction management services (earnings before tax)	<b>20</b>	95	-75
Profit from toll highways operated by the Group (earnings before interests, tax and administrative expenses) - Meiguan, Jihe West, Yanba, Yanpai, Nanguang, Qinglian	<b>546</b>	594	-48
Share of profit/loss of jointly controlled entities and associates* - Jihe East, Wuhuang, Changsha Ring Rd. - Shuiguan, Shuiguan Ext., Yangmao, Jiangzhong, Guangwu, GZ W2, Nanjing Third Bridge	<b>274</b>	293	-18

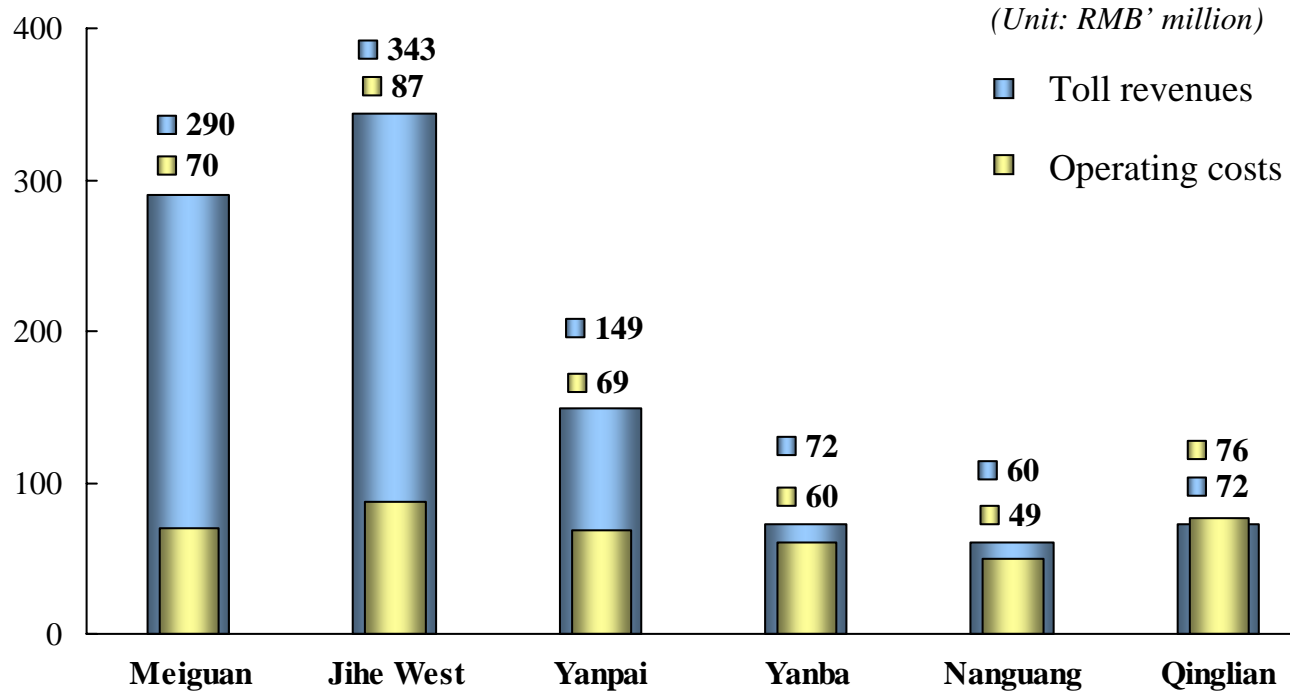
*Prepared in accordance with HKFRS*

\* Deducting the impact of adjustment of paying further enterprise income tax for Jihe East for the Reporting Period, upward adjustment to deferred income tax liabilities of jointly controlled entities and the asset impairment provision for Changsha Ring Road for the year 2007.



## Operating Performance

## Annual Results & Performance



	Meiguan	Jihe West	Yanpai	Yanba	Nanguang	Qinglian	Total
■ Growth rate of toll revenue (YOY)	-12.1%	-0.6%	+10.3%	+13.6%	N/A	-23.3%	+2.0%
■ Growth rate of operating cost (YOY)	+0.3%	+9.0%	+15.1%	+11.1%	N/A	-14.8%	+16.6%



## Costs & Expenses

## Annual Results & Performance

(Unit: RMB' million)

Operating Costs	2008	2007 (restated)	Change
Employee expenses	65	49	32.1%
Road maintenance expenses	104	88	17.5%
<i>Including: provision for maintenance/resurfacing obligations</i>	43	39	10.0%
Depreciation and amortization	195	177	10.2%
Other operating costs	47	38	24.5%
<b>Total</b>	<b>411</b>	<b>353</b>	<b>16.6%</b>
<b>Administrative expenses</b>	<b>54</b>	<b>50</b>	<b>7.5%</b>

During the Reporting Period, an increase of RMB49 million in operating costs was caused by the commencement of operation of Nanguang Expressway, while Qinglian Project, undergoing a period of reconstruction into an expressway, recorded a decrease of RMB13 million in operating costs. Operating costs for other toll highways rose 8.5% as compared to 2007, which was mainly attributable to:

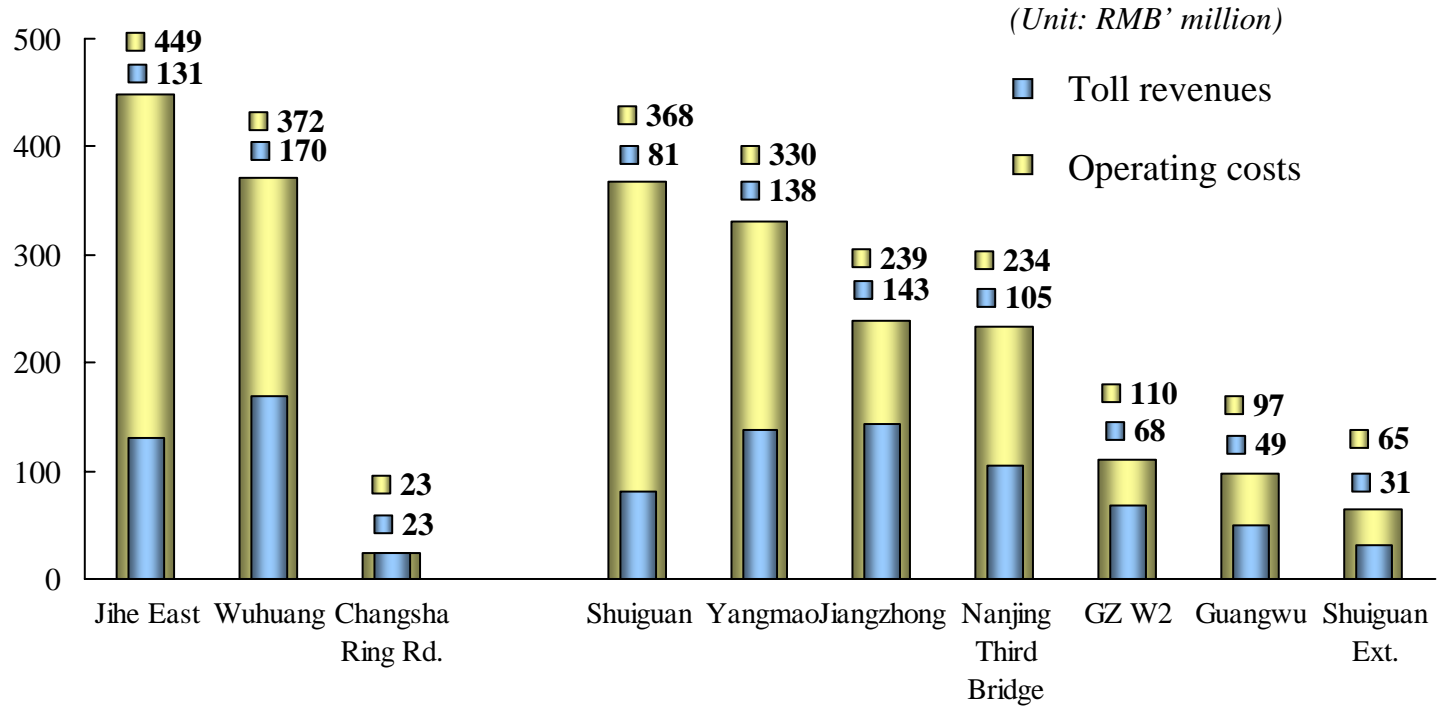
- the expansion in the scale of the maintenance works on highways
- increases in costs fuelled by inflation.





## Share of Profit/Loss of JCE and Associates

## Annual Results & Performance



■ Share of profit from invested projects	125	81	2	84	19	-6	-7	-22	-3	0.3
■ Change in amount	-4.1	-13.1	+0.7	+1.5	+1.2	+0.4	-2.7	+1.2	-1.3	-3

Jointly Controlled Entities

Associates



## Finance Costs

## Annual Results & Performance

<i>(Unit: RMB' million)</i>	<b>2008</b>	<b>2007 (restated)</b>	<b>Change in amount</b>
Interest expenses	<b>453</b>	263	+190
<b>Finance costs</b>	<b>255</b>	<b>150</b>	<b>+105</b>
Interest capitalized	<b>191</b>	105	+86
Others	7	9	-2
<i>Prepared in accordance with HKFRS</i>			
Total borrowings	<b>8,037</b>	5,737	+2,300
Consolidated borrowing costs	<b>5.7%</b>	5.31%	an increase of 0.39 percentage point

**The main reason of the increase of finance costs is as follows:**

- ❑ the cessation of capitalization of borrowing interest for Nanguang Exp. upon its operation (2008: RMB104 million)



## Assets Highlights

## Annual Results & Performance

<i>(Unit: RMB' million)</i>	<b>2008</b>	<b>2007 (restated)</b>	<b>Change</b>
Total assets	<b>18,264</b>	14,711	24.2%
Total liabilities	<b>10,511</b>	7,105	48.0%
<i>Including: total borrowings</i>	<b>8,037</b>	5,737	40.1%
Capital and reserves attributable to equity holders of the Company	<b>7,047</b>	6,893	2.2%
Capital expenditures	<b>2,839</b>	3,559	

*Prepared in accordance with HKFRS*



## Financial Ratios

## Annual Results & Performance

<i>(Unit: RMB' million)</i>	2008	2007 (restated)	Change
Debt-to-asset ratio (Total liabilities/Total assets)	57.6%	48.3%	an increasing of 9.3 percentage points
Net borrowings-to-equity ratio (Total amount of borrowings-cash and cash equivalents)/Total equity)	96.8%	69.3%	an increasing of 27.5 percentage points
EBITDA interest multiple (Earnings before interests, tax, depreciation and amortization/interest expenses) (multiple)	2.3	3.8	a decreasing of 1.5
Over five-year borrowings	53.2%	<b>Credit rating for borrowings and follow-up rating for the Bonds in 2008: AAA</b>	
Unutilized banking facilities	6,610		
Net cash inflow from operating activities & cash return on investments	* 1,145	1,211	-5.5%

*Prepared in accordance with HKFRS*

\* Excluding the net amount of receivables and payables of Coastal Expressway Project



## General Performance Description

## Annual Results & Performance

- ❑ Toll revenue kept growth in difficult market conditions
- ❑ Efficiency of costs and expenses control
- ❑ Stable gross margin
- ❑ Instable profit from entrusted construction management business
- ❑ Abundant cash flow
- ❑ Healthy financing environment
- ❑ Construction progress in line with the expectation



# 超越

*It can mean "surpass" – to surpass one's limit, to surpass one's current abilities. It reflects that the Company has been working unceasingly hard to surpass itself. In 2008, Shenzhen Expressway has worked hard on its various new projects, of which the noteworthy one is Zinglian Project, a project involving such immense scale and construction difficulties that the Company's works on the project were truly unprecedented in the industry. Meanwhile, the Company has initiated to enhance its internal management by introducing the excellent performance management model, and has passed the external certification of ISO 9000 Quality Management System, thereby completing a stage-wise achievement in enhancing its management standards.*



## The Current Environment

## Development Planning & Prospects

### Opportunities

- ❑ New projects become mature gradually
- ❑ Competitive advantages of entrusted construction/operation business and market opportunities
- ❑ A series of policies summed up by the State for expanding domestic demand
  - constantly improving regional road networks
  - relatively liberal credit environment
- ❑ Trend of economic integration of Pearl River Delta and surrounding areas

### Stress & Challenges

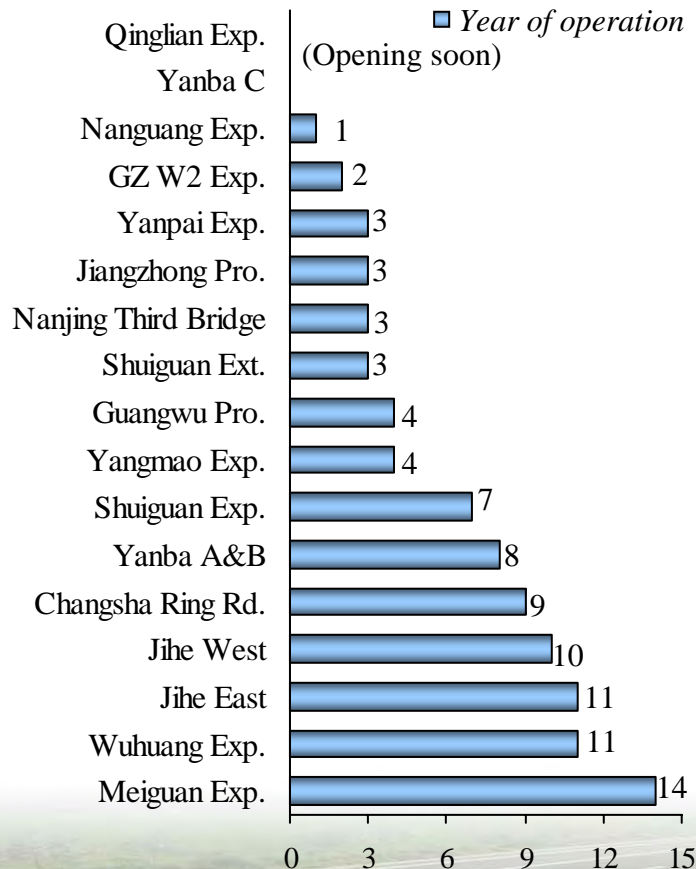
- ❑ Borrowing scale and finance expenses remain high in the two years
- ❑ Uncertainty of global economic environment
- ❑ Impact from the changes of road networks and planning
- ❑ Increasing of construction costs and management risks
- ❑ Stress of road maintenance and reconstruction
- ❑ Changes of industry policies
- ❑ Changes of tax and accounting policies



## Development Plans 1

## Development Planning & Prospects

### □ Enhancing operation management standards and achieve operating profit targets



### Cultivation of projects

- Significant increase of mileage of the toll highways
- Great growth potential for new projects
- Pushing ahead the transformation in the toll collection mode of Qinglian Company and strengthening marketing and related jobs of the projects
- Strengthening the research of road networks and marketing strategies for Nanguang Expressway, Yanpai Expressway and Yanba Expressway in Shenzhen region





## Development Plans 1

### Development Planning & Prospects

#### □ Enhancing operation management standards and achieve operating profit targets

##### Upgrade the quality of the projects

- Studying the impact caused by the external environment and policies
- Enhancing the maintenance management standards to reduce general costs during the operating period
- Improving and optimizing the toll collection system and network monitoring to improve the efficiency of charge
- Enhancing the capacity of existing roads and reasonably arranging the reconstruction plan of the operating toll highways, reducing the short-term affect and enhancing long-term interests:
  - Expansion of Meiguan Expressway
  - Modification and expansion of Shuiguan Expressway



## Development Plans 2

## Development Planning & Prospects

### □ Fully completing the management tasks for the construction projects

#### Qinglian project

- The surface works for the main route was completed

The road surface works for 190kms' reconstruction into an expressway was completed at the end of 2008; the sealing-off work is expected to be completed in 2H09.

- Reconstruction of Liannan section into an expressway:

The Group will strive to control costs through better design and strengthened construction management. It will also endeavour to enhance the traffic capacity of the Liannan Section during the construction period through measures such as construction schedules management and rational traffic arrangement.

- Improvement of relevant road networks

Road Network of Qinglian Expressway





## Development Plans 2

## Development Planning & Prospects

- Fully completing the management tasks for the construction projects

### Entrusted construction projects

(Unit: RMB' million)	Construction scale	Profit
2005	1,600	60
2006	600	21
2007	300	94
2008	500	5
<b>Expected scale</b>		
2009	4,000	
2010-2011	9,000	

### The projects completed in 2008 and the ongoing projects currently:

- Hengping project (Resumed sections)
- Nanping (Phase II)
- Shenyun project
- Coastal Expressway (Shenzhen Section)  
– *entrusted mode is to be decided*

- The profit of the new entrusted construction projects will be embodied after 2010.



## Development Plans 3

### Development Planning & Prospects

- **Strengthening financing efforts, maintaining a sound financial position and continuously enhancing financial management standards**

#### Financial strategies

- Maintaining the reasonable and prudent capital structure
- Ensuring the safe and plentitude liquidity
- Reducing the financing costs
- Strengthening the warning system for relevant risks

**Increasing ROE  
Preventing financial risks**

#### Financing arrangements

- Maintaining sufficient banking facilities and high credit ratings
- Arranging loan structure rationally
- During a time of tight credit:  
Maintaining a safe scale of short-term loans and cash reserves
- During a time of relaxed credit and falling interest rates:  
Timely replacing original loan contracts
- Mandating to issue fond-type financing instruments in Renminbi

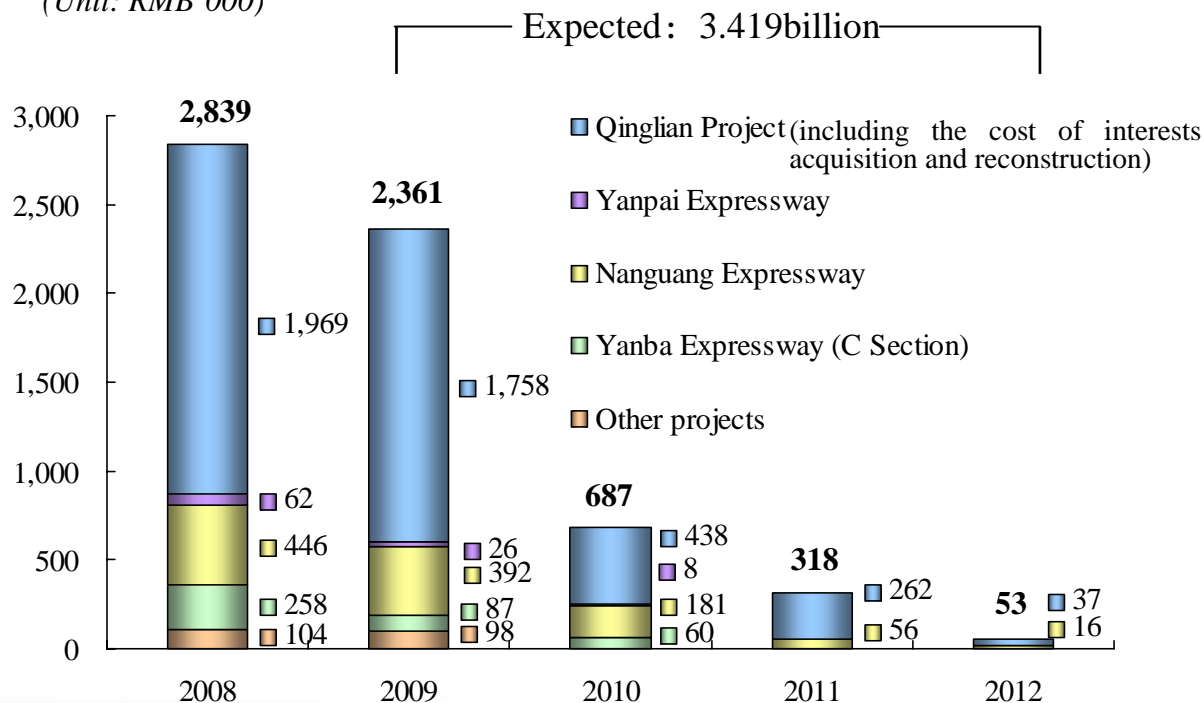


## Development Plans 3

## Development Planning & Prospects

- **Strengthening financing efforts, maintaining a sound financial position and continuously enhancing financial management standards**

(Unit: RMB'000)



### CAPEX

- The CAPEX will be a certain degree of increase if the expansion plan is finally approved by the group.
- Strengthening the planning management of CAPEX and increasing the forecast accuracy of operating cash flow in order to ensure that capitals are timely paid and capital efficiency is enhanced

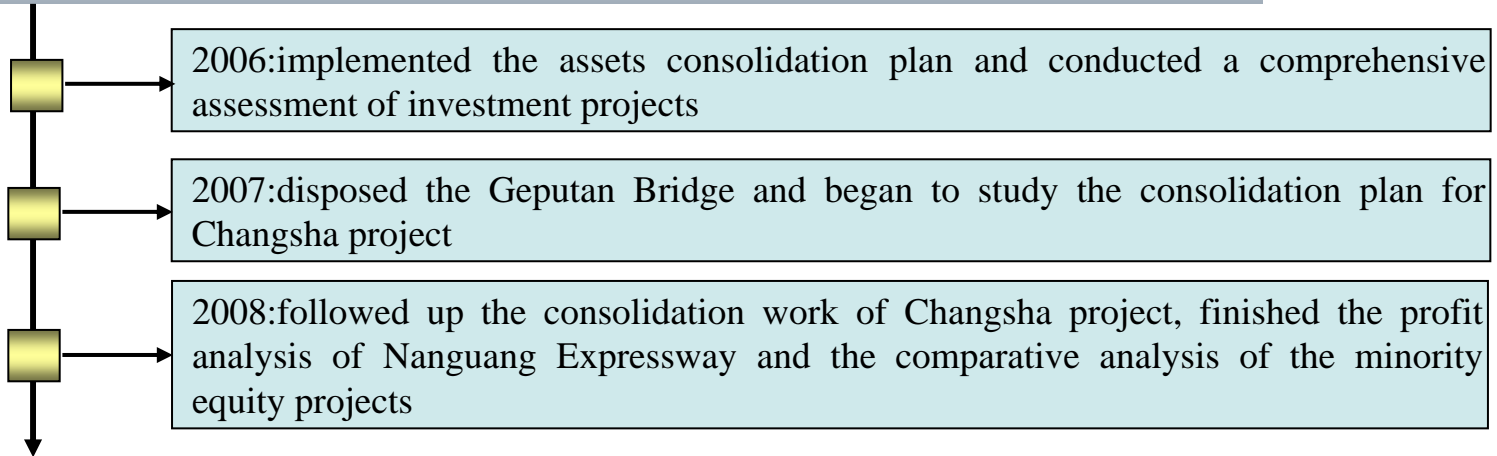


## Development Plans 4

### Development Planning & Prospects

#### □ Strengthening the management of assets pool in order to increase ROE

The efforts of the Company have stepped up in managing the assets pool:



- Enhancing the potential of quality assets, and reducing the number of projects which have lower returns and limited growth potential or weak control capability.
- Prudently studying the investment opportunities of the mature projects, avoiding investing the green filed project recently.
- Properly developing and reserving new projects

Developing in connotative way  
Increasing ROE



## Development Plans 5

### Development Planning & Prospects

- **Enhancing the development strategies planning and the integral management capabilities to satisfy the Group's development needs.**
  - Formulating the new Strategic development planning
  - Running in the excellent performance management model
  - Organizing and enhancing the internal control regime
  - Stepping up efforts in recruitment and training of talents
  - Strengthening the communication and cooperation with the government authorities with a view to enjoy the strong support from the government



# 卓越

*It can mean "excellence" – to surpass the ordinary. A pursuit of excellence has always been the goal of the Company. Looking ahead, Shenzhen Expressway is confident that it will weather the current economic "winter", making strides towards excellence through continuously enhancing its management and unfailingly exceeding its own limits. We are indeed stocking fuel of today's hard efforts for tomorrow's fast journey.*

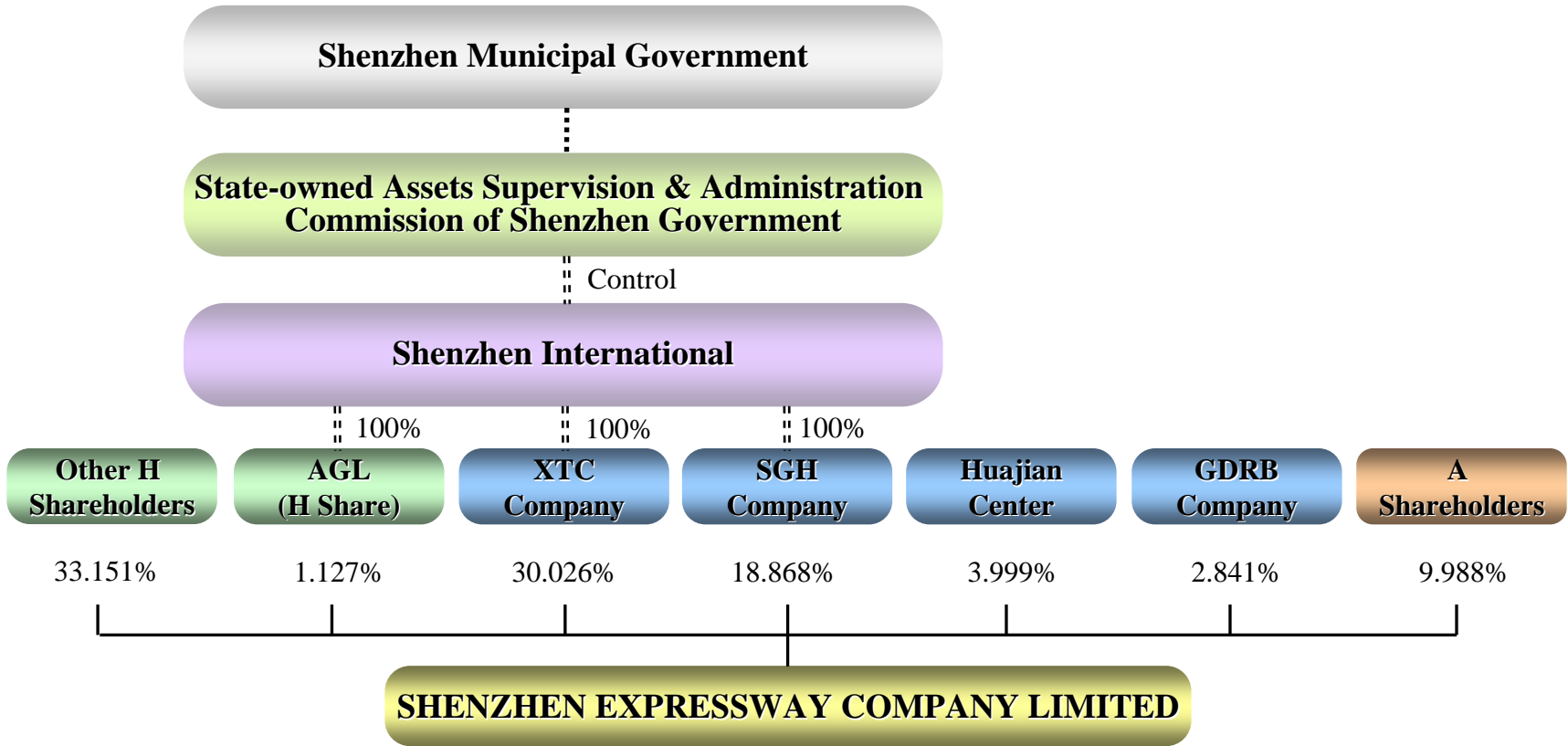






## Shareholding Structure

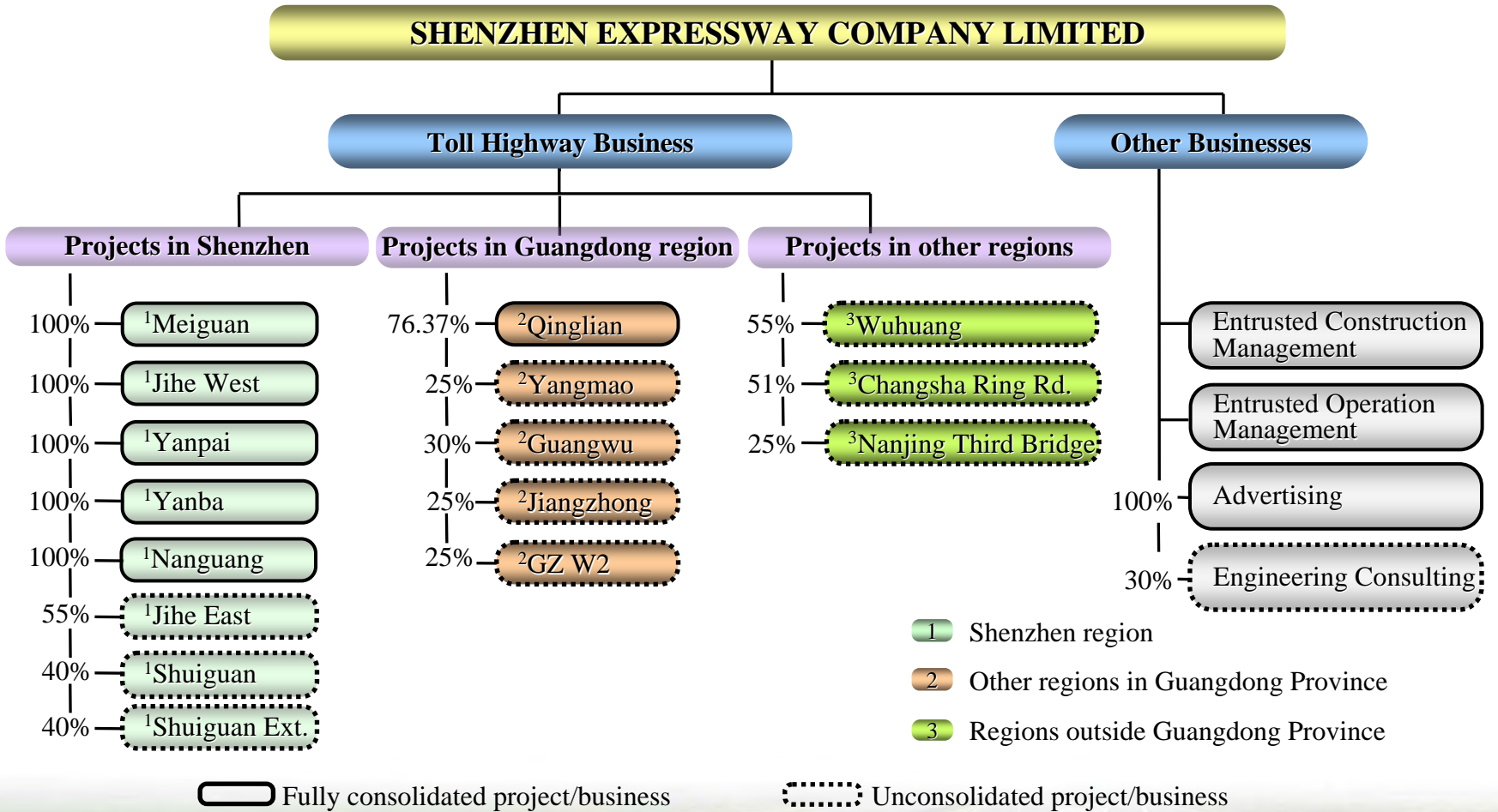
Appendices





# Business Structure

Appendices

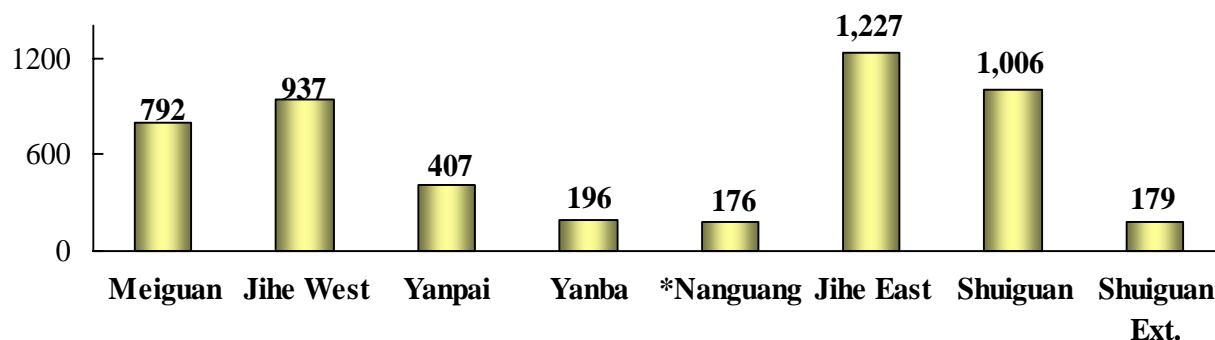




## Traffic Volumes & Toll Revenues - Shenzhen region

Appendices

### □ Average Daily Toll Revenues (Unit: RMB'000)



Change (YOY)	-12.3%	-0.8%	10.0%	13.3%	N/A	6.7%	4.3%	-1.6%

### □ Average Daily Mixed Traffic Volumes (number of vehicles in thousands)

	Meiguan	Jihe West	Yanpai	Yanba	*Nanguang	Jihe East	Shuiguan	Shuiguan Ext.
Average daily mixed traffic volume	93	68	32	14	16	91	106	28
Change (YOY)	-5.6%	2.9%	21.2%	11.1%	N/A	2.6%	2.9%	0.6%

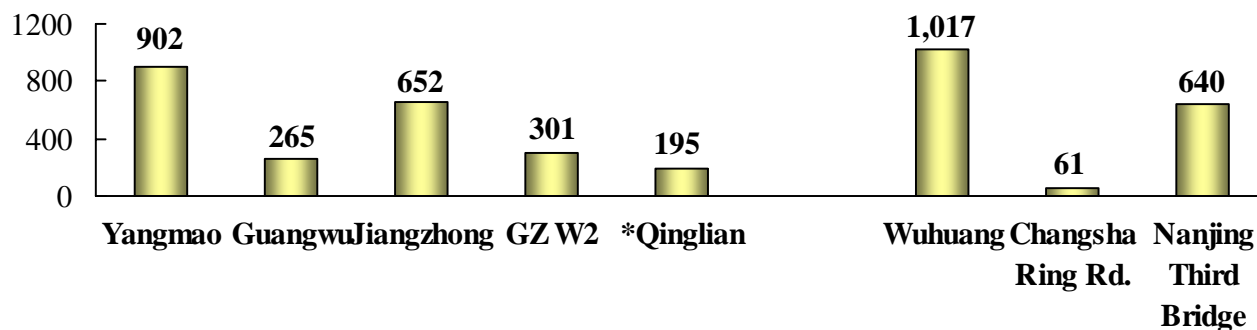
\* The main trunk of Nanguang Expressway has commenced toll operation since 26 January 2008.



## Traffic Volumes & Toll Revenues - other regions

Appendices

### □ Average Daily Toll Revenues (Unit: RMB'000)



Change (YOY)	-1.20%	-0.40%	12.00%	66.80%	-23.5%	-3.30%	-1.70%	1.70%

Pearl River Delta Region

Outside Guangdong Province

### □ Average Daily Mixed Traffic Volumes (number of vehicles in thousands)

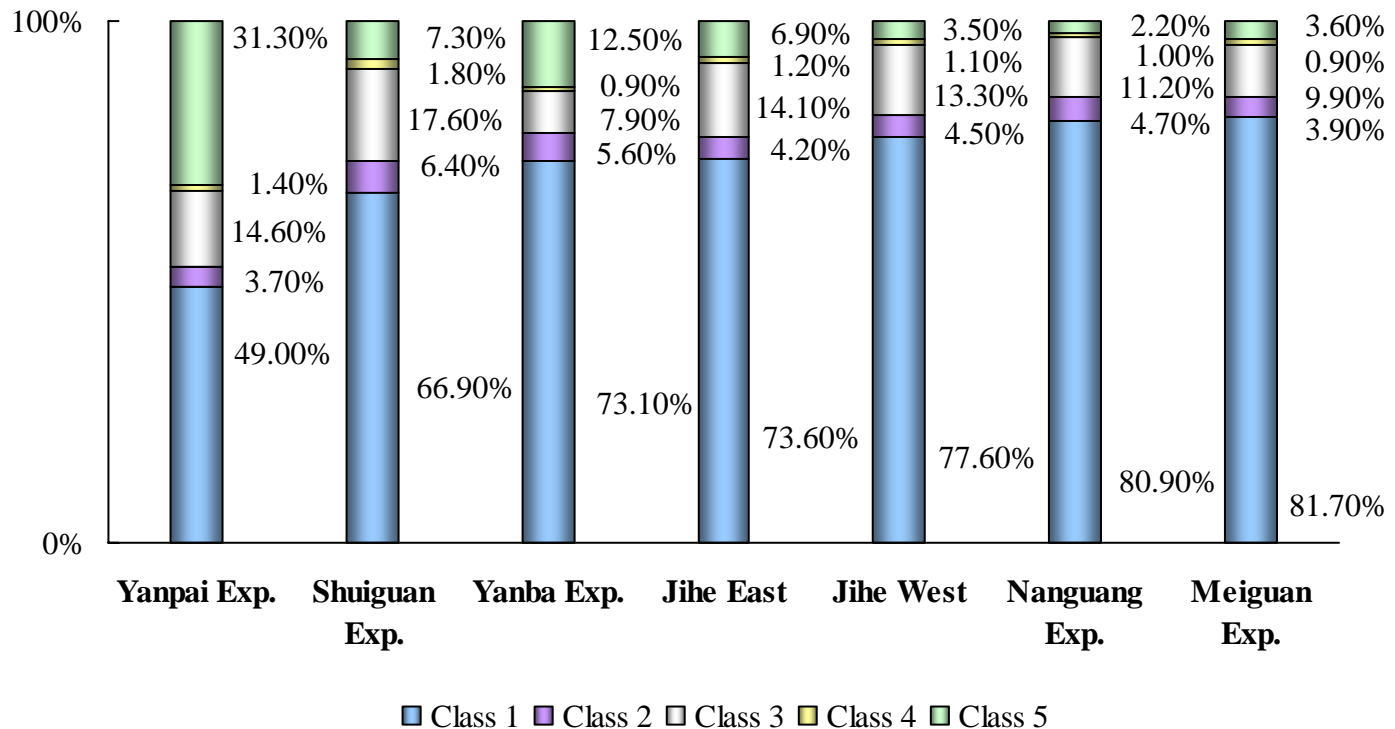
	Yangmao	Guangwu	Jiangzhong	GZ W2	*Qinglian	Wuhuang	Changsha ring road	Nanjing third bridge
Average daily mixed traffic volume	18	9.8	45	9.6	15	29	6	18
Change(YOY)	11.9%	6.8%	14.8%	59.7%	-19.4%	4.7%	4.0%	9.2%

\* During the Reporting Period, as Qinglian Class 1 Highway is undergoing reconstruction into an expressway, it allowed limited opening to traffic. Accordingly, operational statistics of Qinglian Project (including Qinglian Class 1 Highway and Qinglian Class 2 Highway) are for reference only.



## Vehicle Category of Major Toll Highways in 2008

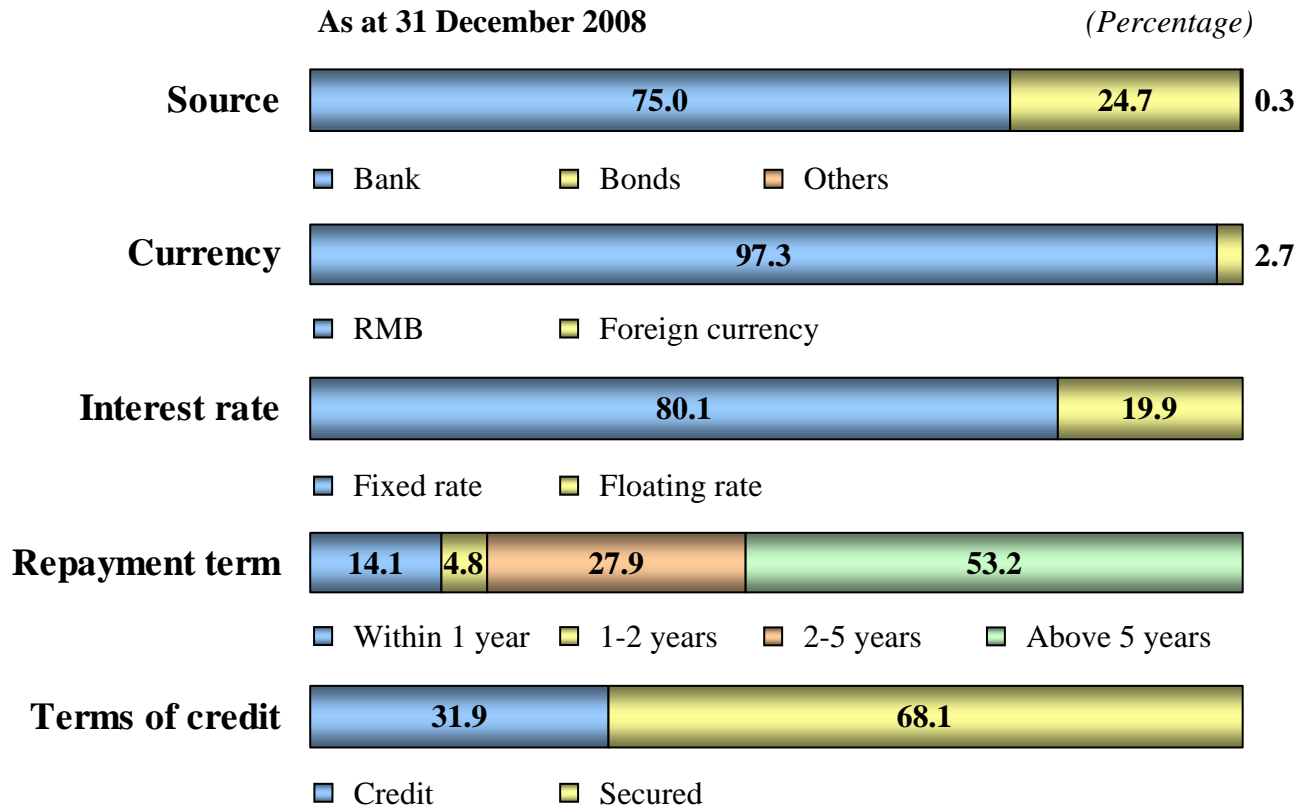
Appendices





## Borrowing Structure

## Appendices





## IR Contact

**Hotline: 86-755-82853330 82853332**

**Fax: 86-755-82853411**

**Website: <http://www.sz-expressway.com>**

**E-mail: [IR@sz-expressway.com](mailto:IR@sz-expressway.com)**

### **Company Declaration**

All information presented in the material is disclosing to the public and for the purpose of understanding the status of operation and the Company's development planning. The Company might adjust the contents without pre-notice. Besides, the Company wishes to remind investors that the data does not constitute an invitation to trade the Company's stock and the Company does not guarantee the future performance of the stock.