



E-Flash Report

2013 Annual Results

GUIDANCE

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2013 Annual Results Briefing

On 20 March 2014, the Company held the 2013 Annual Results Briefing in Shenzhen and Hong Kong respectively, a total of 87 investors and analysts and reporters attended. At the briefing, Mr. Yang Hai, Chairman of the Company, introduced the operational performance in 2013 and shared the operating plan and the management thoughts of 2014 with all participators, and answered their questions with other members of the management.

(Please go to <http://www.sz-expressway.com/UploadFiles/2014/03/20171702419E5E37.pdf> to read or download the materials for the references.)





Frequently Asked Questions

1. What's the trend of the operational performance of the Company's toll road projects in 2014?

A: In 2014, there are a lot uncertainties over the economic and political environment. However, the negative impact brought by the introduced policies are becoming stabile and clear. Meanwhile, with the progress of urbanization, the transition and upgrade of regional economy, the traffic demand will maintain a relatively steady growth in the future. In case of no significant adverse change in the operating environment, it is expected that the operational performance of the mature projects of the Company will remain stable, and Qinglian Expressway, Nanguang Expressway, and Yanba Expressway, which opened in recent years still have certain growth space. However, after the toll adjustment of Meiguan Expressway, it will accordingly reduce the toll revenue attribution from the 13.8km toll free section. It is expected that Wuhuang Expressway will continue to be diverted by the parallel roads. Based on the reasonable analysis and assumption on our operating environment and operating conditions, the Group has set the total toll revenue target for 2014 of not less than RMB2.9 billion.

2. What is the Company's capital expenditure plan in the next few years? Will the Company invest Outer Ring Expressway?

A: From 2014 to the end of 2016, the Group's capital expenditure will be expected to be approximately RMB630 million, which mainly used for the remaining construction investments and settlements of projects such as the reconstruction into an expressway for Qinglian Class 1 Highway and Nanguang Expressway, and the reconstruction and expansion for Meiguan Expressway.

The Company has a pre-emptive right for the development of Outer Ring Expressway. It is the last of the planned expressway in the Shenzhen Municipal. Following the progression of the unification of Shen, Guan, Hui (Shenzhen-Dongguan-Huizhou), the advantages in terms of its route will become more prominent. As the project requires large scale of investment with high construction cost, the Company is focusing on improving its design and investment structure and undergoing discussion and negotiation for feasible investment, construction and management models with the relevant government departments to achieve a balance between corporate and social benefits. Currently, the investment model and developing plans of the project are still uncertain.



3. How is the work of Guilong Project coming along?

A: The Company has actively explored and tried businesses relating to the toll highway industry and our core business capability amid the changes of operating environment. Based on its experience and advantages in entrusted construction business, the Company carried out Guilong Project through its holding subsidiaries-Guishen Company, and participated in the road construction and the primary development of surrounding land by “build-transfer” mode (BT Mode) . In order to effectively reduce the risk of funds recovery and generate the expected revenue, Guishen Company participated in the bid for the land along the project. Since 2012, Guishen Company has successfully won the bid for the land with an area of approximately 1,863 mu, of which an area of 300 mu has been approved by the Board of the Company to conduct further development on their own. The relevant planning and design works are in progress. Guishen Company will realize the market value of the lands it holds through market transfer, cooperative development or self-development regarding the overall marketization conditions and development opportunities. For Guilong Project, the primary goal of the Company is to control risks. Meanwhile, the Company also hopes to cultivate and practice the employee's market awareness and market competition to promote the balanced and sustainable development of the Company by exploring and attempting for new business.

4. What is the Company's dividend payout policy? Will the Company pay a special dividend after the toll adjustment of Meiguan Expressway?

A: The Company puts emphasis on shareholder's returns. Despite the Company's debts level is in high position and cost of funds is high in current years, the Company has kept cash payout ratio around 40%-50%. The Board of the Company recommended the payment of a cash dividend of RMB0.16 per share for the year 2013, representing dividend ratio of 48.5%. The Company will keep a reasonable and relatively steady dividend payout policy in the future and will fully consider the balance of long-term and short-term interests between the Company and investors. After the toll adjustment proposal of Meiguan Expressway is approved and effective, it is expected to bring the one-off disposal of assets of the Group in 2014. The Company will decide the dividend payout ratio base on the factors such as case flow, financial status, development plan, need of funds and financing environment. There is no specific plan at present.



5. What is the Company's future development plan and strategy?

A: For the long run future, toll highway business will remain to be the major business segment and profit source of the Group. However, under the development of the economy and policy change, the toll highway industry saw the boosting costs of many aspects such as investment and construction, maintenance and daily operations. In particular, for the newly built toll highways, their overall yield showed a downward trend caused by the rising costs of land requisition, demolition and relocation as well as construction. The number of toll highway projects in traditional mode with commercial value has been decreasing.

Therefore, relying on the highway industry, the Company is seeking for the development opportunities related to the Company's core business capability. In the new year, the Company will continue to adhere to the idea of sound operation, increase income, and make great efforts to improve operating result. In respect of operation management, the Group will continue to improve operational service level, make targeted adjustments on marketing initiatives to attract traffic flows, actively advance the work on inter-network toll collection in Guangdong province, and complete the maintenance works for Jihe West on schedule in order to ensure the traffic efficiency and traffic capacity of the highways. In respect of construction management, the Group will push forward the progress of the construction projects and achieve timely recovery of entrusted construction revenue, and seize opportunities for entrusted construction market expansion. Moreover, the Group will conduct the research and negotiation for the proposals in respect of Coastal Project and Outer Ring Expressway and advance the progress of the project of BT-link land development in order to obtain the reasonable return in the precondition of controllable risks. Meanwhile, the Group will closely monitor the changes in monetary policies and financing environment, study various financial instruments, further optimize the debt structure, and reasonably control the capital costs in order to provide the necessary protection for the sustainable and healthy development of the Group. The Company actively explored and tried various business mix in order to diversify the industry risks based on the daily management work. The Company has officially launched a new round of strategic research and formulation work. The Management will conduct profound research on the development strategies and business models in and outside the industry and timely capture the market opportunities of business development and asset consolidation in order to confirm the next development direction. The balanced and sustainable development of the Company will be enhanced if we adapt to the current trend and utilize resources efficiently.



6. What are the impacts on the Company's financial statements regarding to the disposals of Qinglian Class 2 Road and Meiguan Expressway? Will Qinglian Class 2 Road receive compensation from the Government?

A: The Company disposed the net book value of Qinglian Class 2 Road in accordance with the progress of relevant work and the requirements of accounting standards, which incurred a one-off loss of RMB 140 million for 2013. However, benefited from the increase of traffic flow in the road network, the implementation of corresponding measures to increase revenue and contain expenditures, and the smooth development of entrusted management business, the achievements of overall revenue and operating targets of the Group in 2013 have no material adverse change and the Group recorded a slight increase in net profit of around 5%. Since road property transfer and the coordination with authorities of the government is still in progress, there is no reliable estimation on the economic compensation that may be granted by government authorities and/or maintenance obligation of which government authorities may request Qinglian Company to perform due to the cancellation of toll collection of Qinglian Class 2 Road. The Company will keep a close eye on the subsequent progress and impact of the relevant work on an ongoing basis, actively coordinate with the government departments in order to protect the Company's interest and lower the impacts within this incident.

If the toll adjustment proposal of Meiguan Expressway is approved and effective, it is expected that the disposal of assets of the Group in 2014 will increase by approximately RMB1.1 billion, and the net assets will accordingly increase by approximately RMB1.1 billion. (Note: The above data is only the result of preliminary estimation, and the changes will be recognized when it occurs and confirmed upon the audit performed by the auditors of the Company.) Besides, after the adjustment, the compensation income obtained may either accordingly reduce the interest expenditure or increase the interest income of the Group in the upcoming periods. Meanwhile, the toll free section will no longer contribute toll revenue for the Group, and thus the income of the Group in the upcoming periods will also be reduced accordingly, which is expected that such changes will not bring material impact on the overall business performance of the Group. Provided that the future income can be reasonably predicted, the Group may realize its potential income at one time to obtain cash assets, so as to lower the overall liability of the Group, improve its financial status and enhance the capability and room for sustainable development in the future.



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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