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## 深圳高速公路股份有限公司

### SHENZHEN EXPRESSWAY COMPANY LIMITED

*(a joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 00548)**

## 2015 Annual Results Preliminary Announcement

### I. Important Notice

- 1.1** 2015 Annual Results Preliminary Announcement of the Company is extracted from full Annual Report 2015 of the Company. For detailed information, investor shall read the full annual report to be published on the website of SSE at <http://www.sse.com.cn> and HKEx at <http://www.hkexnews.com.hk>.

All the information to accompany preliminary announcement of results for the financial year required under Appendix 16 to the Listing Rules was included in the 2015 Annual Results Preliminary Announcement published on the website of HKEx.

The 2015 annual financial statements of the Company were prepared in accordance with CASBE, and also were complied with the disclosure requirements under the Hong Kong Companies Ordinance and the Listing Rules.

Unless otherwise stated, the amounts stated in this announcement are in RMB.

### 1.2 Basic Information of the Company

Type of shares	A Share	H Share
Abbreviation	Shenzhen Expressway	Shenzhen Expressway
Stock code	600548	00548
Listing exchanges	SSE	HKEx
Contacts and details	Secretary of the Board	Securities Officer
Name	LUO Kun	GONG Xin, XIAO Wei
Telephone	(86) 755-8285 3331	(86) 755-8285 3338
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E-mail	secretary@sz-expressway.com	

## II. Proposed Profit Distribution

The Board recommended the payment of a final dividend of RMB 0.34 (tax included) per share in cash to all shareholders (2014: RMB0.45 per share), based on the total share capital of 2,180,770,326 as at the end of 2015 and totaling RMB 741,461,910.84 for the year 2015. The aforesaid proposal shall be subject to approval by shareholders at the 2015 Annual General Meeting of the Company. The date of the annual general meeting, the record date for dividend payment, dividend payment procedures and payment date, and the book closure period for H Shares will be notified separately.

## III. Principal Financial Data and Information of the Shareholders

### 3.1 Principal Financial Data

During the Reporting Period, the Group recorded a revenue of RMB3,421 million, representing an decrease of 5.52% YOY. Net profit attributable to owners of the Company amounted to RMB1,553 million with earnings per share of RMB 0.712, representing an decrease of 29.0% YOY.

Unit: RMB

	As at 31 Dec 2015	As at 31 Dec 2014)	Change as compared to the end of last year	As at 31 Dec 2013 (Restated <sup>Note</sup> )
Total assets	<b>31,670,655,088.41</b>	24,329,324,209.02	30.17%	22,840,107,479.91
Owners' equity attributable to owners of the Company	<b>12,368,892,973.17</b>	11,797,581,861.32	4.84%	9,974,420,429.05
	2015	2014	Change as compared to last year	2013
Revenue	<b>3,420,578,335.19</b>	3,620,357,480.08	-5.52%	3,279,281,057.26
Net profit attributable to owners of the Company	<b>1,552,656,397.24</b>	2,186,883,365.49	-29.0%	719,691,617.00
Net profit attributable to owners of the Company - excluding non-recurring items	<b>527,396,785.06</b>	963,942,971.64	-45.29%	828,414,277.54
Net cash flows from operating activities	<b>1,771,505,130.32</b>	1,793,755,282.29	-1.24%	1,761,224,786.28
Return on equity - weighted average (%)	<b>12.94%</b>	20.14%	decrease7.20 pet.pt	7.40%
Earnings per share - basic (RMB/share)	<b>0.712</b>	1.003	-29.0%	0.330
Earnings per share - diluted (RMB/share)	<b>0.712</b>	1.003	-29.0%	0.330

Note:

Since 2014, the three new/revised accounting standards issued by Ministry of Finance and the application guidance thereof issued later had been adopted by the Group. Accordingly, certain accounting items were reclassified and listed, and retrospective adjustment was applied to the relevant items of the comparative financial statements. Each of the financial data contained in this table as at the end of years of 2013 remained unchanged in the adjustment.

### 3.2 Information of the Total Number of Shareholders and the Top Ten Shareholders

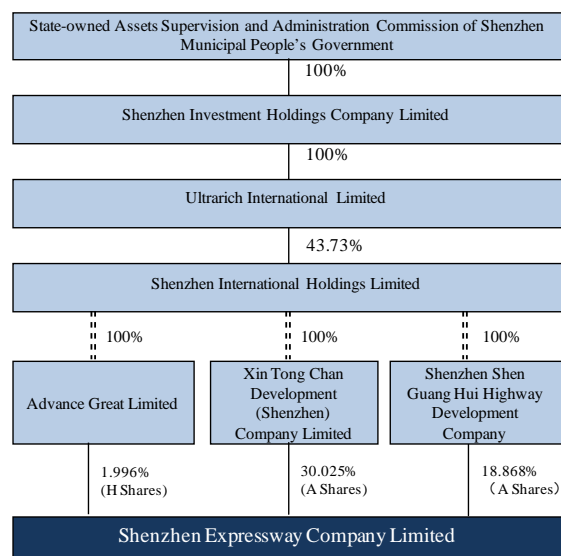
As at the end of the Reporting Period, based on the shareholders' registers provided by the share registrars and the transfer offices of the Company in the PRC and Hong Kong, the information of the total number of shareholders and the top ten shareholders of the Company were as follows:

Unit: share

<b>Total number of shareholders as at the end of 2015</b>	The Company had 30,674 shareholders in total, including 30,420 holders of A Shares and 254 holders of H Shares.				
<b>Total number of shareholders as at the end of the last month prior to the Reporting Date</b>	The Company had 28,243 shareholders in total, including 27,991 holders of A Shares and 252 holders of H Shares.				
<b>Top ten shareholders as at the end of 2015</b>					
<b>Name of shareholder</b>	<b>Nature of shareholders</b>	<b>Percentage</b>	<b>Number of shares held</b>	<b>Number of restricted circulating shares held</b>	<b>Number of shares pledged or frozen</b>
HKSCC NOMINEES LIMITED <sup>note</sup>	Overseas legal person	32.95%	718,459,099	—	Unknown
Xin Tong Chan Development (Shenzhen) Company Limited	Domestic non-state-owned legal person	30.03%	654,780,000	—	None
Shenzhen Shen Guang Hui Highway Development Company	Domestic non-state-owned legal person	18.87%	411,459,887	—	None
China Merchants Hua Jian Highway Investment Co., Ltd	State-owned legal person	4.00%	87,211,323	—	None
Guangdong Roads and Bridges Construction Development Company Limited	State-owned legal person	2.84%	61,948,790	—	None
AU SIU KWOK	Overseas natural person	0.50%	11,000,000	—	Unknown
IP KOW	Overseas natural person	0.42%	9,100,000	—	Unknown
China Securities Finance Corporation Limited	Domestic non-state-owned legal person	0.20%	4,416,000	—	Unknown
Shanghai Honestfund Asset Management Co.,Ltd—Honestfund Multi-Strategy Securities Investment Funds	Domestic non-state-owned legal person	0.19%	4,144,825	—	Unknown
Shanghai Chengming Investment Co.,Ltd	Domestic non-state-owned legal person	0.14%	3,086,942	—	Unknown
<b>Connected relationship or concerted action relationship among the abovementioned shareholders</b>	Xin Tong Chan Development (Shenzhen) Company Limited and Shenzhen Shen Guang Hui Highway Development Company are connected persons under the same control of Shenzhen International Holdings Limited. There is no connected relationship among the state-owned shareholders in the above table. The Company did not notice any connected relationship among the other abovementioned shareholders or any connected relationship among the abovementioned state-owned shareholders and other shareholders.				

Note: The H Shares held by HKSCC NOMINEES LIMITED were held on behalf of various clients.

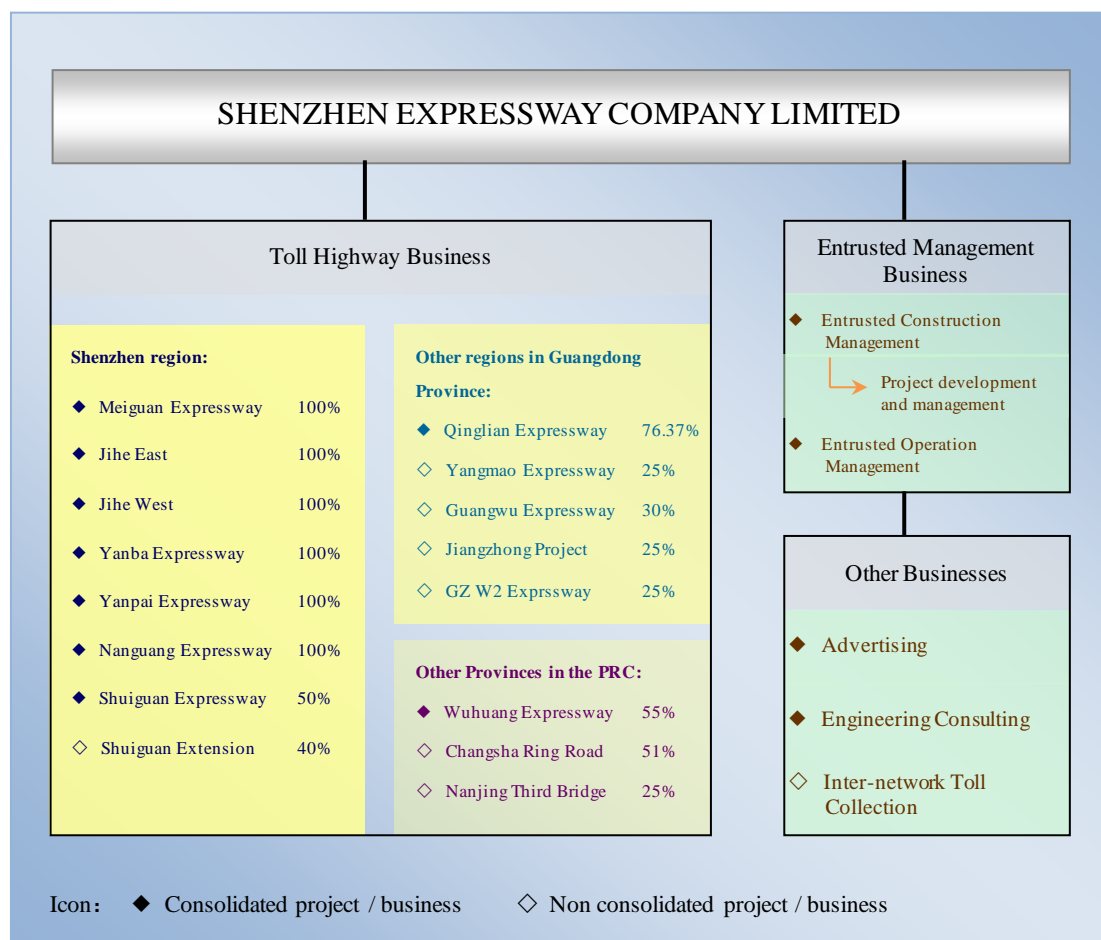
### 3.3 The Ownership and the Relation of Control Between the Company and the De-facto Controller



## IV Report of the Directors

### 4.1 Business Review

The Group's revenues and profits are mainly derived from toll highway operations and investments. In addition, the Group provides outstanding construction management and highway operation management services for the government and other enterprises. Building on relevant management experience and resources and relying on the core business of toll highway, the Company has launched the businesses such as project development and management, advertising, construction consulting, and inter-network toll collection. The principal business structure of the Company is set out as follows:



In 2015, the Group earnestly managed the toll highway projects, steadily developed the entrusted management business and prudently attempted to enter into new types of business. During the Reporting Period, the Group recorded revenue of approximately RMB3,421,000,000, representing a YOY decrease of 5.52%, of which toll revenue of approximately RMB3,014,000,000, entrusted management services revenue of approximately RMB95,000,000, engineering consulting services revenue of approximately RMB191,000,000, advertising and other business revenue of approximately RMB121,000,000, accounted for 88.12%, 2.77%, 5.60% and 3.51% of the total revenue of the Group respectively.

## **(I) Toll Highway Business**

### **1. Analysis of Operating Environment**

#### **(1) Operating environment**

In 2015, during the transformation of the Chinese economy which witnessed the continuous optimisation of industrial structure, acceleration of the reform of traditional industries and promotion of new economic development, there was significant downside pressure on the economy. The GDP of the PRC recorded a YOY growth of 6.9% with the growth rate decreased by 0.4% as compared to last year. During the year, Guangdong Province and Shenzhen City recorded YOY growths of 8.0% and 8.9% in their regional GDPs respectively, slightly above the national average. The economic growth was relatively stable and conducive to the general growth of the regional transportation and logistics demand via highway. During 2015, the container throughput at Shenzhen ports reached a YOY growth of 0.7%, of which the container throughput of Yantian Port maintained a YOY growth of approximately 4.2%, facilitating the growth of the total traffic volume of lorries in the road network of Shenzhen region in a more effective manner. In addition, driven by the active adjustment of industrial structure policy in recent years, Guangdong Province recorded a significant growth in consumption in 2015. The total retail sales of social consumer goods for the year was RMB 3.1 trillion a YOY growth of 10.1%. which is the first time exceeded RMB3 trillion.<sup>Source of above data: Governmental statistics information website.</sup> Under the combined effect of various factors in the macro and regional economic environment, most of our toll highway projects maintained relatively stable operating performance during the Reporting Period, however, traffic volume and toll revenue of certain toll highway projects recorded YOY decreases.

#### **(2) Policy environment**

In order to achieve the target of establishing a nationwide inter-network electronic toll collection system of expressways, the classification standard of vehicles on expressways and toll-by-weight for lorries were adjusted to be consistent with national standards in Guangdong Province and Hubei Province (“the Adjustment”) with effect from the end of June 2015. The classification of vehicles on expressways has been standardised in accordance with 《收費公路車輛通行費車型分類》 (“Vehicle Classification of the Toll Highway”) issued by the Ministry of Transport. Meanwhile, for cargo vehicles, tolls shall be charged in accordance with an on spot measurement of vehicles based on the total weight of vehicles and goods in accordance with the established weighting method. However, the basic rate of related charges remains the same as prior to the Adjustment. The Adjustment can help to push forward the implementation of the nationwide inter-network toll collection of expressways, resulting in an enhanced traffic efficiency of expressways, and exerting a positive effect on the comprehensive governing of over-loaded vehicles and maintaining the safety of roads and bridges at the same time. Nevertheless, the restructuring and integration of the systems would also increase the capital expenditure of the projects and bring new issues and challenges to the operation management. It is expected that the Adjustment will not have significant impact on the toll revenue and the operating results of the Group as a whole. In addition, in recent years, the Standardization Scheme implemented by the Guangdong Province and the nationwide policies of Toll Free Scheme on Holidays and Green Passage Toll Free Policy posed considerable negative impact on the toll revenue of the projects still existed. However, the impact on YOY changes of projects’ revenue has been eliminated generally.

## 2. Business Performance and Analysis

In 2015, the traffic volume and toll revenue of most of the road projects in which the Group operated and invested continued to grow. Basic operational statistics of each project during the Reporting Period are as follows:

Toll highway	Average daily mixed traffic volume (number of vehicles in thousand) <sup>(1)</sup>			Average daily toll revenue (RMB'000)		
	2015	2014	YOY Change	2015	2014	YOY Change
<b>Guangdong Province - Shenzhen region:</b>						
Meiguan Expressway <sup>(2)</sup>	75	85	N/A	283	414	N/A
Jihe East	219	190	15.6%	1,745	1,615	8.1%
Jihe West	176	150	17.1%	1,491	1,268	17.6%
Yanba Expressway <sup>(3)</sup>	37	36	2.8%	473	493	-4.1%
Yanpai Expressway	57	57	-0.6%	442	584	-24.4%
Nanguang Expressway	96	87	11.0%	880	840	4.8%
Shuiguan Expressway <sup>(4)</sup>	191	169	13.4%	1,537	1,386	11.0%
Shuiguan Extension	75	62	22.3%	254	231	9.9%
<b>Guangdong Province - other regions:</b>						
Qinglian Expressway	33	33	0.8%	1,746	2,136	-18.3%
Yangmao Expressway	40	35	15.9%	1,695	1,552	9.2%
Guangwu Project	35	32	8.9%	894	802	11.5%
Jiangzhong Project	107	101	6.0%	1,067	1,019	4.6%
GZ W2 Expressway	50	46	8.2%	990	917	7.9%
<b>Other Provinces in the PRC:</b>						
Wuhuang Expressway	41	39	4.4%	908	891	2.0%
Changsha Ring Road	20	16	22.3%	223	168	32.7%
Nanjing Third Bridge	27	28	-3.2%	1,041	1,093	-4.8%

Notes:

- (1) Traffic volume which is toll free during holidays is not included in the figures of average daily mixed traffic volume.
- (2) Toll-free policy for Meilin to Guanlan section of Meiguan Expressway with a mileage of approximately 13.8 km has been implemented since 24:00 on 31 March 2014 and the toll for the section from Shenzhen-Dongguan border to Guanlan with a mileage of approximately 5.4 km remained the same. As there is a relatively significant change on the toll mileage, no YOY change data is provided in this table.
- (3) For the convenience of residents in Shenzhen to go to the eastern coast for leisure and vacation, the government has made a standardised payment to the Company for the vehicles travelling to and from Yantian and Dameisha Ramp based on the agreed standards and methods since February 2007. During 2013 to 2017, toll fees paid by the government as agreed are RMB19 million per year, which are included in the toll revenues of Yanba Expressway on a monthly basis. Arrangement after 2017 will be negotiated and confirmed by both parties before expiry of the agreement.
- (4) During the Reporting Period, as the Group has completed the relevant work of the acquisition of additional 10% equity interests in the Shuiguan Expressway Project Company, and obtained effective control over the project company, the equity interests of Shuiguan Expressway held by the Group therefore increased from 40% to 50% in 30 October 2015, and the proportion of revenue consolidated into the financial statements has been adjusted to 100% from not being consolidated.

The effect of factors such as economic environment and policy changes on toll highway projects varied, and the operational performance varied among different toll highway projects due to differences in the function positioning, operation date of respective projects and conditions of economic development along the highways. The operational performance of toll highways were also affected, both positively and negatively, by factors such as changes in surrounding competitive or synergistic road networks, construction of connected or parallel roads and implementation of urban traffic organization plans as well as the effects of other transportation methods. In addition, the construction or maintenance works of the projects may also have impact on their then operational performance.

**(1) Guangdong Province - Shenzhen region:**

With the continuous improvement of the transportation network of Shenzhen region in recent years, coupled with the cancellation of toll collection of certain regional roads, the traffic distribution and composition in the regional road network in Shenzhen have been affected to a certain extent. Guanjintou toll station of Boshen Expressway commenced operation at the end of October 2014, driving the growth in the traffic volume of Jihe Expressway and Yanpai Expressway. The toll collection of Yantian'ao Tunnel in Shenzhen has been cancelled with effect from 1 February 2015, bringing a greater diversion impact on the traffic volumes of lorries on Yanpai Expressway and Yanba Expressway and also a slight negative effect on the performance of Jihe Expressway. On the other hand, the full opening of Coastal Expressway in late 2013 has a slight diversion impact on the traffic of Nanguang Expressway.

As the maintenance works for the road surface of Jihe Expressway and the reconstruction and expansion work of Meiguan Expressway were completed during 2013 and the first half of 2014 respectively, the negative impacts arisen therefrom on the traffic of the projects have been gradually eliminated. Meanwhile, benefiting from the higher traffic capacity and efficiency after the projects' expansion work and maintenance works of road surface, the service standard and operational performances of the projects have been further improved. Besides, after the implementation of the toll adjustment proposal of Meiguan Expressway since April 2014, the traffic volume in toll free section has shown a faster growth, driving the growth of traffic volume in toll section and thus the operational performance of the connected Jihe Expressway. The maintenance works carried out in Longda Expressway during the Reporting Period also posed certain positive effects on Jihe Expressway. In 2015, the average daily toll revenues of Jihe East and Jihe West were better than that those of the other projects in Shenzhen region, with a rapid YOY increase of 8.1% and 17.6% respectively.

During the Reporting Period, the preventive maintenance and repair works of Nanguang Expressway and Section B of Yanba Expressway have been implemented, which have negatively affected the traffic conditions and operational performance of the projects and the connected roads to a certain extent. The Company strived to reduce the adverse impact on the traffic services by means of optimization of construction plans and implementation of reasonable traffic organization plans, on the condition that assurance will be given about the safety and quality of the construction. The two abovementioned maintenance works were completed in November 2015.

## **(2) Guangdong Province - Other regions:**

Guangle Expressway (Guangzhou – Lechang, in Guangdong), being the dual line of G4 National Expressway (Guangdong Section), and Erguang Expressway (Lianzhou to Huaiji section, in Guangdong) commenced operation at the end of September 2014 and the end of December 2014 respectively. As the layouts of the above sections are similar to that of Qinglian Expressway, and construction of the link between Erguang Expressway and Qinglian Expressway is under way, certain diversions on Qinglian Expressway have been resulted at this stage.

## **(3) Other provinces**

In 2015, the toll revenue of Wuhuang Expressway basically remained the same as that in the same period of 2014, and its operational performance was still under the negative impact of various factors including the commencement of operation of nearby road networks and implementation of traffic control measures for municipal roads. However, the impact on YOY changes has generally been eliminated. Affected by various factors including the commencement of operation and thus diversion of Maanshan Yangtze River Bridge and the commencement of specific repair works of road surface during the period, the toll revenue of Nanjing Third Bridge recorded a YOY decrease. Benefiting from the positive impacts of various factors including the improvement of road networks, implementation of traffic control measures of neighboring roads, reconstruction works on relevant roads and economic development and business growth of enterprises along the highway, the toll revenue of Changsha Ring Road recorded a relatively rapid YOY growth.

## **3. Business Management and Upgrade**

### **◆ Implement the Nationwide Inter-Network Toll Collection System to Enhance the Quality of Operational Services**

During the Reporting Period, the Company fully leveraged its advantages in respect of technological management to proactively lead and participate in the formulation and review of technological standards, management systems and shift plans in relation to the nationwide inter-network toll collection for expressways in Guangdong Province. During the course of implementation, the Company thoroughly planned for the integration, transformation and upgrade of system, as well as the testing on installation of software and hardware. The Company also pre-organised trainings and rehearsals, timely updated and improved the work procedures and systems upon implementation of the inter-network toll collection. In the second half of the year, the Company closely monitored the operation after the network shift and continued to improve and perfect the system. Currently, the overall operation of the system is running well and the quality of operational management is under control. The toll collection system is in line with the national standard, which is beneficial for promoting the implementation of the nationwide inter-network toll collection system for expressways and enhancing the traffic efficiency of expressways. In addition, by making good use of database in the inter-network toll collection system, the Group has established a standardised terminal operation model and an inspection management system, so as to commence combating toll evasion on a regular basis, effectively implement supervisions over green passages and



inspections of overloading vehicles and strive to reduce toll loss. Meanwhile, against the backdrop of the implementation of the nationwide ETC inter-network toll collection system and continuous expansion of the coverage of inter-network toll collection, regular upgrade and reform of software and hardware of the toll collection system and constant update of business procedures and management systems, the Group continued to optimise the standardised operation management modules and constantly improved the traffic condition and efficiency of roads by adhering to its regulated, standardised and systematic management model, with a view to enhance the competitiveness and operational performance of the projects.

#### **◆ Enhance the Operational Performance of Roads through Promotion and Marketing of the Road Networks**

Relying on the database for traffic distribution of the road networks and structure of vehicle category across Guangdong Province, and by way of site inspections, route comparison and data analysis, the Group continuously tracked the changes of road networks and travelling directions of vehicles in the region, and formulated and implemented targeted marketing and promotional measures to promote the advantages of road networks and projects through various ways, thereby attracting more drivers to use the roads of the Group and facilitating the growth of the toll revenue. During the Reporting Period, the Group continued to carry out multi-aspect works on marketing and management of the road networks with emphasis on Qinglian Expressway, Nanguang Expressway and Yanba Expressway, with an aim to develop the growth potential of each project, and formulate and implement marketing and promotional measures by taking into consideration of various factors such as the condition of projects along the highways and the changes of neighboring road networks. For instance, the Group continued to strengthen the strategic positioning of Qinglian Expressway as the main trunk road linking Guangdong Province and Hunan Province by cooperating with major tourist attractions along the highway to establish a long-term mechanism for joint cooperation and create a “golden corridor” for tourism, thereby achieving a win-win situation through integration of marketing resources. On the other hand, in response to the cancellation of toll collection of Yantian’ao Tunnel in Shenzhen, the Company set up a specific marketing team to carry out on-site inspections, design optimised routes, disseminate traffic guidance and information through multiple means and study the Yantian Port area and towing industry thoroughly in order to understand customers’ needs and enhance the service quality, so as to minimise the negative impacts on the Company. During the overhaul of Longda Expressway, the Company designed diverted routes for drivers and passengers and diverted more drivers to use Jihe West, which promoted the growth of toll revenue of Jihe West. In addition, by seizing the opportunities created by the commencement of operation of a new station of Meiguan Expressway and implementation of the nationwide inter-network toll collection system, the Company launched various marketing and promotion activities to promote advantages of each of the project as a mean to proactively attract traffic and enhance the growth of toll revenue.

#### **◆ Strengthen Management for Road Maintenance to Ensure the Quality of the Road Traffic**

The Company conducted regular quality checks on highways and frequent inspections on highway administration. It has also built up a joint mechanism between road assets and traffic operational information, which enables the Company to take timely measures to remove and

rectify the unsafe factors in highways or take maintenance measures to better protect the quality, safety and free traffic of highways. During the Reporting Period, the Group conducted preventive maintenance works for Nanguang Expressway and Section B of Yanba Expressway and further studied the application and improvement of precautionary maintenance technology of road surface. The Company established a mechanism to conduct regular reviews on road maintenance plans and an interactive adjustment mechanism in which maintenance technology plans can be constantly improved and optimised to ensure continuous improvement of road technology and condition and prolong the useful life of the roads, thereby effectively reducing their total maintenance cost. In addition, the Group also conducted small-scale specialised works, such as reinforcement of slopes and expansion of toll stations to ensure the safety and free traffic of highways, based on the actual circumstances and needs.

#### **4. Business Development**

During the Reporting Period, the Group acquired an additional 10% interests in Qinglong Company with an initial consideration of RMB280 million and the proportion of equity interests in Shuiguan Expressway owned by the Group has increased from the original 40% to 50%. The Group has also obtained effective control over Qinglong Company through the agreement and arrangement with the co-shareholders of Qinglong Company, which has been included in the scope of consolidation for the financial statements of the Group. Shuiguan Expressway has maintained a continuous growth trend in traffic volume and toll revenue since its opening, and it has completed the expansion in recent years with proven track record and relatively low investment risks. With the increase in interests in Qinglong Company, the Group can enhance its control over the operation and management of Qinglong Company, which will in return help improve the profitability and cash flow of the Group in the future and further consolidate the core advantages of the Group in respect of investment, management, and operation of highways, which is in line with the development strategies and overall interests of the Group. For the specific impact of including Qinglong Company in the scope of consolidation for the financial statements of the Group to the Group's operating result and financial position, please refer to the relevant content in "Financial Analysis" below.

Based on the overall demands for economic development and transportation planning, the Shenzhen government has conducted an in-depth discussion and negotiation with the Company on the toll adjustment of Nanguang Expressway, Yanpai Expressway and Yanba Expressway ("Three Projects") and eventually reached a consensus and agreement in compliance with the market principles. On 30 November 2015, the Company and Transport Commission of Shenzhen Municipality (on behalf of the Shenzhen Municipal People's Government) entered into an agreement relating to the toll adjustment of the Three Projects, pursuant to which, the adjustment proposal will be implemented from 00:00 on 7 February 2016 in two phases: the Company will implement the toll-free policy for Nanguang Expressway, Yanpai Expressway and Yanba Expressway, while the Transport Commission of Shenzhen Municipality will make cash compensation to the Company based on the adjustment mechanism accordingly. The adjustment will be implemented in two phases: during Phase 1 (from 7 February 2016 to 31 December 2018), the Company will implement the toll-free policy for the Three Projects, under which it may retain the fee entitlement right and continue to be responsible for the management and maintenance of such sections; meanwhile, the Transport Commission of Shenzhen Municipality will acquire traffic services of the Three Projects from

the Company and make compensation for the exempted toll fees (as consideration for the services). During Phase 2 (commencing from 1 January 2019), the Transport Commission of Shenzhen Municipality can opt to adopt the adjustment mechanism in Phase 1 (Option 1) continuously or it can resume possession of the fee entitlement right of the Three Projects earlier and make compensation accordingly (Option 2). If the Transport Commission of Shenzhen Municipality opts to resume possession of the fee entitlement right of the Three Projects earlier, the Company will no longer retain the fee entitlement right of the Three Projects and will no longer be responsible for the corresponding management and maintenance. In the case that Option 1 or Option 2 is adopted during Phase 2, the tentative amounts of total compensation will be RMB9.688 billion and RMB7.652 billion respectively. Such amounts will be settled, recognised or adjusted in accordance with the settlement terms under the agreement. For details, please refer to the announcement of the Company dated 2 December 2015. All conditions precedent under the agreement have been fulfilled on 29 January 2016, and the toll-free policy has been implemented for the three abovementioned projects starting from 7 February 2016. Based on the estimated cash flow to be generated by future revenue and/or income of Nanguang Expressway, Yanpai Expressway and Yanba Expressway, the Company acquired a large amount of cash assets at a reasonable consideration and capital cost, which will enable the Company to improve its financial position and enhance its ability and provide rooms for business expansion and exploration of new industries. The Company will also step up its effort in acquiring main business projects and developing new industries, with a view to improve its asset structure for long-term development as a whole and achieve new industry layout as soon as possible. In connection with the abovementioned adjustment proposal, the Company has received a reasonable compensation, which has taken into account its needs for sustainable development. The adjustment also benefits the comprehensive social and economic development of the regions along the expressways and the overall development of Shenzhen area. Therefore, the adjustment is a win-win solution that brings benefits to the society, government and the Company. For the specific impact of the toll adjustment of the Three Projects to the Group's operating result and financial position, please refer to the relevant content in "Financial Analysis" and "Outlook and Plans" below.

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 focuses 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 organisation 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 Group and government authorities, the parties eventually reached a consensus on matters relating to the investment, construction and management of Outer Ring Project. According to the current proposal, the investment budget for Section A of Outer Ring is approximately RMB20.59 billion, among which, the Group will invest RMB6.5 billion and receive the operating revenue and undertake

the operating cost, 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. For details, please refer to the announcement of the Company dated 18 March 2016. As at the Reporting Date, the construction drawing design for Section A of Outer Ring has been approved and most of the works in relation to tenders of consultation have been completed, while other tasks including land preparation, procedures for land use, as well as relocation of pipelines and cables are now underway. 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 realise a win-win situation for the public, the government and the Company. The abovementioned proposal is subject to the approval at the general meeting.

## **(II) Entrusted Management and Other Businesses**

Relying on the core business of toll highway and building on relevant management experience and resources, the Group has launched or engaged in related businesses such as entrusted management, advertising and construction consultation, and prudently tapped into new business areas as favourable trials and auxiliaries in addition to core business, aiming at providing more room for further growth and development of the Group.

### **1. Entrusted Management Business**

The entrusted construction management business and the entrusted operation management business (also known as entrusted construction business and entrusted operation business), are currently the major businesses of the Group apart from toll highway business. Leveraging its expertise and experience accumulated in the relevant areas throughout these years, the Group has realised reasonable revenues and returns from the receipt of management fee and/or bonus according to the calculation methods as agreed with the entrusting parties through provision of services relating to construction management and toll highway operation management. In addition, based on the experience in entrusted construction business, the Group has also engaged in the construction and development of local roads by adopting the BT mode (also known as BT business). Under the model of entrusted construction and entrusted operation, project construction and operation will be funded by the proceeds raised by the entrusting parties. However, under the BT mode, project construction will generally be funded by the entrusted parties who are responsible for the construction and management.

#### **(1) Entrusted construction business and BT business**

The projects under construction during the Reporting Period included New Toll Station of Meiguan and Facilities Project, Longda Municipal Section, Guanlan Renmin Road – Meiguan Expressway Joints Project and Resettlement Project Phase II in Guizhou Longli, etc. Currently, the main focuses of the Group on entrusted construction and BT business are to strengthen safety and quality management of the projects under construction, to coordinate and monitor the recovery of revenue of entrusted construction projects, to push forward the inspection and acceptance for completed projects, and to enhance the preliminary planning of new projects.

During the Reporting Period, the entrusted construction projects were proceeded smoothly, of which construction work of the main part of the New Toll Station of Meiguan and Facilities Project was completed and commenced operation in February 2015, the delivery and inspection was completed and the coordination of other works such as delivery and inspection, audit of construction drawing budget are also underway. Longda Municipal Section is scheduled to be completed in the first half of 2016. Contracts have been executed for various contracted sections of Guanlan Renmin Road-Meiguan Expressway Joints Project and the relevant parties have commenced on-site construction. Most of the construction works of Resettlement Project Phase II are basically completed and the inspection and delivery work has commenced.

In addition, during the Reporting Period, tasks such as the completion settlement and the government audit of Coastal Phase I, Nanping Phase II and Dezheng Road Project were still underway. Coastal Company had actively pushed forward various preliminary works of Coastal Phase II, as at the end of the Reporting Period, the feasibility research, opinions on site planning and selection, earthquake safety assessment report of Coastal Phase II have been approved and the tender of the construction and supervision work of certain contracted sections were completed.

## **(2) Entrusted operation business**

In 2015, the Company continued to be entrusted to carry out the operation management of Longda Project under the model of equity management, and each of the management task thereunder was smoothly carried out. On 30 December 2015, the Company and Baotong Company renewed the entrusted management agreement and the entrusted term was extended to 31 December 2018. Moreover, pursuant to the “Entrusted Operation Management Agreement” entered into between the Company and SIHCL in November 2009, the Company was entrusted to manage Coastal Company, including the management of Coastal Expressway (Shenzhen Section) during the construction period and operation period and among which, the specific arrangement in respect of the entrusted management of Coastal Company during the operation period will be confirmed after further negotiation, and is subject to the ultimate approval of the Shenzhen government. As at the Reporting Date, the details of specific matters such as the calculation and payment arrangement of the entrusted management fee are still under negotiation, and are subject to the approval procedures handled by the parties of the agreement as stipulated.

For details of the profits as well as incomes and expenses of various entrusted management businesses during the Reporting Period, please refer to the relevant content in “Financial Analysis” below and note V\33 to the financial statements in this announcement.

## **2. Expansion of Entrusted Management Business**

With the improvement of Guilong Road and the infrastructure of its in peripheral regions and the development of the whole Guilong Economic Zone, it is expected that the peripheral lands peripheral to Guilong Project will have greater potential for appreciation. In order to effectively reduce the risk of fund recovery from Guilong Project and realise the expected or an even more favourable amount of incomes from the project, Guishen Company has actively

engaged in the land auctions within the development area of Guilong Project. From 2012 up to the Reporting Date, Guishen Company has successfully won the bids for parcels of land with an area of approximately 2,310 mu (approximately 1,540,000 square meters) with a total consideration of approximately RMB809 million. Guishen Company has set up certain wholly-owned subsidiaries to hold and manage the land use rights of the parcels mentioned above.

Guishen Company is adopting a progressive development strategy by phases. It has conducted a secondary self-development for certain parcels acquired, which have an area of 300 mu (approximately 200,000 square meters). Currently, construction of Phase I Group A of Guilong Development Project (also known as “Interlaken Town Project”) (approximately 110 mu, equivalent to 70,000 square meters) is almost completed and is expected to be delivered and put into use in 2016. Guishen Company promoted the project through various means and organised a series of marketing events and actively conducted customer visits and sales events, which were well-responded by the market. In the second half of 2015, Guishen Company also commenced the development and construction of Phase I Group B (approximately 129 mu, equivalent to 86,000 square meters). As at the end of the Reporting Period, the construction drawing design and tender of construction has been completed and is now proceeding to launch of sales events.

Pursuant to the approval from the Board, the Group transferred 100% interest (including its equity interests and creditors’ rights) in Guizhou Yuelong, which currently owns 296 mu (approximately 200,000 square meters) of Guilong Land by way of open tender. During the Reporting Period, the related open tender procedures were completed and the agreed transfer price amounted to approximately RMB180.80 million. The transferee has signed a transfer contract. Since the transferee failed to perform the contract on schedule, the transaction has been suspended.

In addition, on 30 December 2015, Guizhou Property entered into two transfer agreements with Shenzhen International Logistics Development Co., Ltd. (“SZ International Logistics”). Guizhou Property proposed to, after reorganizing the lands of Guilong Land No. 2 and changing the use of land of certain of land lots thereof, transfer the entire equity in and creditors’ rights of Guizhou Pengbo (which will hold approximately 322.9 mu of land lots for logistics use) and 51% equity interest in Guizhou Hengtongli (which will hold approximately 143.9 mu of land lots for commercial and residential use) to SZ International Logistics at considerations of approximately RMB95.267 million and RMB44.021 million respectively following the reorganisation. For details, please refer to the announcement of the Company dated 30 December 2015.

Based On the above, Guishen Company will, through means such as timely market transfer, cooperation or self-development based on the overall market conditions and development opportunities, realise the market value of the lands it holds and the Group’s investment gains as soon as possible, at the same time prevent the contractual and market risks in relation to the lands in an effective way.

### **3. Urban Renewal Project**

Pursuant to the relevant agreement and the approval of the general meeting of the Company, the Company and Shenzhen International (through XTC Company, its wholly-owned subsidiary) jointly contributed capital to establish United Land Company. As the reporting entity and implementing entity of Meilin Checkpoint Renewal Project, the Company and XTC Company own 49% and 51% equity interests of United Land Company respectively. During the Reporting Period, United Land Company executed the land use right transfer contracts regarding Meilin Checkpoint Renewal Project Land Parcels with Longhua Administration Bureau, Urban Planning, Land & Resources Commission of Shenzhen Municipality as scheduled, and paid 30% of the land premium (including the transfer price of land use right and other payables) and obtained the land use right of the land parcels. The land area of the Meilin Checkpoint Renewal Project Land Parcels is approximately 96,000 square meters and the land is for residential and commercial use with a plot ratio-based gross floor area of not more than 486,400 square meters (including public affiliated facilities, etc.) and a total land premium of approximately RMB3.567 billion. For details, please refer to the announcement of the Company dated 1 July 2015.

Apart from the abovementioned land premium of approximately RMB3.567 billion, the total costs for Meilin Checkpoint Renewal Project Land also include relevant taxes, relocation compensation for the properties on the land, preliminary planning costs, etc. As at the end of the Reporting Period, the assessment for compensation and negotiation between United Land Company and the operators and tenants of the existing properties on the Land were basically completed while the execution of relevant agreements and cleaning up works are still in progress. According to current progress of the related work, it is estimated that the total cost of the project land parcel will range from about RMB5.0 billion to RMB5.2 billion. 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 cooperates with Shenzhen International to carry out the project, so that it could meet the Shenzhen government's relevant requirements on the entities for urban renewal. This also enables both parties to seize the opportunities for urban development and renewal, and improve the overall corporate efficiency and shareholders' returns. The Company is actively conducting industry policy research, exploring the methods for value realisation and liquidation of the land, as well as promoting the introduction of cooperation parties with Shenzhen International, so as to timely realise the commercial value of the project.

### **4. Other Businesses**

The Group is engaged in the businesses of billboard leasing, advertising agency, design production and related businesses alongside the toll highways and at the toll stations through its wholly-owned subsidiary, Advertising Company. In addition to operating and disseminating the self-owned media resources along the expressways, Advertising Company also further developed outdoor media businesses of main urban roads and provided brand building and promotion plans for customers in recent years.

For the purpose of resources integration, the Company obtained its control over Consulting Company by amending its articles of association during the Reporting Period. Consulting

Company is a professional project consulting company with independent legal person qualification, its scope of business covers preliminary consultancy, survey design, tendering agency, construction costs consultancy, engineering supervision, project test, project inspection and maintenance consultancy, and has the professional qualification of, and servicing competence in undertaking the consultancy services of the entire process of project investment and construction. The consolidation of Consulting Company into the financial statements of the Group is of great significance to the Company in achieving the integration of industrial chain.

Moreover, Guangdong UETC, an associate company of the Company, proposed to implement a private placement during the Reporting Period. After completion of capital increase, the shareholding of the Company in Guangdong UETC will decrease from 15% to 12.86%. As at the Reporting Date, such capital increase is still under negotiation and approval process. Guangdong UETC is principally engaged in electronic clearing business of the toll highways in Guangdong Province, including investment, management and services of electronic toll and clearing systems, and the sales of related products.

During the Reporting Period, the Company also subscribed 382,000,000 shares issued by Bank of Guizhou, representing 4.15% of the total share capital of Bank of Guizhou after the capital increase. Given the strong cash dividend capacity and the future development potentials of Bank of Guizhou, the subscription of the additional shares issued by Bank of Guizhou will optimise the Company's asset allocation in pursuit of sound synergy for its subsequent infrastructure investments and operations in relevant regions.

During the year, each of the above business, in general, proceeded smoothly and has met the Group's expectation. Limited by the scales, the contributions from these businesses currently only account for a very small proportion of the Group's revenue and profit. For details of the other businesses of the Company during the Reporting Period, please refer to note V\33 to the Financial Statement in this announcement.

## **4.2 Financial Analysis**

In 2015, the Group recorded net profit attributable to owners of the Company ("net profit") of RMB1,552,656,000(2014: RMB2,186,883,000), representing a YOY decrease of 29.0%. During the Reporting Period, the Group has obtained effective control over Qinglong Company and Consulting Company and they have been consolidated into the Group's financial statements. The equity interests held prior to the acquisition date of such companies were remeasured at fair value and thus generated an investment income of RMB904,017,000. In addition, as the operational performance of Qinglian Expressway was worse than expected, impairment provisions of RMB620,000,000 have been made for the concession intangible assets of Qinglian Expressway and the carrying amount of deferred tax assets with deductible losses of Qinglian Company has been reduced by RMB45,934,000. The abovementioned investment income and impairment loss as a whole have resulted in an increase of the Group's net profit of RMB513,817,000 during the Reporting Period. After excluding the effect of the abovementioned investment income and impairment loss, as well as the gains on disposal of assets of the Toll Free Section of Meiguan Expressway recognised in the corresponding period of last year and reduction of deferred tax assets of Qinglian Company, the net profit recorded a



YOY decrease of 5.10%. This was mainly due to a significant YOY decrease in profit from entrusted construction management services during the Reporting Period.

For details of the aforesaid investment income resulted from the remeasurement of equity interests held by the acquiree prior to the acquisition date at fair value, the impairment provisions for the concession intangible assets of Qinglian Expressway, and the reduction of the carrying amount of deferred tax assets with deductible losses of Qinglian Company, please refer to the relevant contents as set out in point (II) “Description on Material Changes in Profits from Non-main Business” below.

## (I) Analysis of Main Business

### Analysis of Changes in Related Items in the Income Statement and Cash Flow Statement

Unit: '000 Currency: RMB

Item	Amount for the current period	Amount for the corresponding period of last year	Change (%)
Revenue	3,420,578	3,620,357	-5.52
Cost of services	1,678,748	1,705,256	-1.55
Selling expenses	14,102	4,778	195.14
General and administrative expenses	134,012	88,494	51.44
Financial expenses	370,700	419,278	-11.59
Assets impairment loss	620,000	-	N/A
Investment income	1,154,991	187,042	517.50
Non-operating income	39,931	1,510,538	-97.36
Income tax expenses	177,177	695,448	-74.52
Net cash flows from operating activities	1,771,505	1,793,755	-1.24
Net cash flows from investing activities	583,623	494,868	17.94
Net cash flows from financing activities	2,571,025	-2,123,007	N/A

#### 1. Analysis of Income and Cost

During 2015, the Group recorded revenue of RMB3,420,578,000, representing a YOY decrease of 5.52%, of which toll revenue amounted to RMB3,014,057,000, accounting for 88.12% of the Group’s revenue as the main source of revenue of the Group. The decline of the Group’s revenue during the Reporting Period was primarily attributable to a significant YOY decrease in revenue of entrusted construction management services. The detailed analysis of revenue is set out below:

Unit:'000 Currency: RMB

Revenue item	2015	Percentage of total (%)	2014	Percentage of total (%)	Change (%)	Description
Revenue from main business – toll highways	3,014,057	88.12	3,007,632	83.08	0.21	❶
Revenue from other businesses – entrusted management services	94,617	2.77	503,436	13.91	-81.21	❷
Revenue from other businesses – services such as engineering consulting	191,396	5.60	N/A	N/A	N/A	❸
Revenue from other businesses – advertising and others	120,508	3.51	109,289	3.01	10.27	
<b>Total revenue</b>	<b>3,420,578</b>	<b>100.00</b>	<b>3,620,357</b>	<b>100.00</b>	<b>-5.52</b>	

**Description:**

❶ During 2015, the Group recorded a YOY increase of 0.21% in toll revenue, of which Qinglong Company had been consolidated into the Group's financial statements since 30 October 2015 and had contributed toll revenue of RMB105,895,000 during the Reporting Period. After excluding the effect of such factor, the Group recorded a YOY decrease of 3.31% in toll revenue, which is mainly due to the cancellation of toll collection for the Toll Free Section of Meiguan Expressway since 1 April 2014 and the fact that Qinglian Expressway, Yanpai Expressway and Yanba Expressway were affected by diversion of road networks, leading to respective YOY decreases in toll revenue. Benefitted from the natural growth of traffic volume, maintenance of neighbouring road sections and proactive marketing campaigns, the operational performance of other ancillary toll highways have all achieved considerable growth. Details of analysis of the operational performance of various projects during the Reporting Period are set out in the Business Review above. The income presented based on specific items is set out in point (1) below.

❷ Revenue from entrusted management services recorded a YOY decrease of RMB408,819,000, which is mainly due to the fact that the Group adjusted and recognised the revenue from the entrusted management services in respect of both Coastal Phase I and Guilong Project based on the actual settlement of works, the audit results of government departments and the progress of completion during 2014, resulting in a YOY decrease in the revenue from the entrusted management services of RMB210,391,000 and RMB183,142,000 respectively for the two projects. The management period of the entrusted construction management projects normally lasts for more than three years. During the respective periods, as affected by the changes of various factors including the scale of each project, progress of construction during the current period, contractual terms, audit results of government departments and settlement of works, the related services income and costs recognised may have a higher level of fluctuation.

❸ Consulting Company has been consolidated into the Group's financial statements since 1 July 2015 and contributed a revenue of RMB191,396,000 during the Reporting Period.

## (1). Breakdown of Main Business by Industry, Product and Region

Unit: '000 Currency: RMB

Breakdown of main business by industry						
Industry	Revenue	Cost of services	Gross profit margin (%)	YOY change in revenue (%)	YOY change in cost of services (%)	YOY change in gross profit margin (%)
Toll highway	3,014,057	1,419,450	52.91	0.21	-3.41	Increased by 1.77 pct.pt
Breakdown of main business by product						
Product	Revenue	Cost of services	Gross profit margin (%)	YOY change in revenue (%)	YOY change in cost of services (%)	YOY change in gross profit margin (%)
Qinglian Expressway	637,172	372,000	41.62	-18.29	-15.24	Decreased by 2.10 pct.pt
Jihe East	636,945	274,142	56.96	8.08	-9.82	Increased by 8.54 pct.pt
Jihe West	544,207	104,596	80.78	17.63	2.68	Increased by 2.80 pct.pt
Wuhuang Expressway	331,593	178,835	46.07	1.97	1.79	Increased by 0.09 pct.pt
Nanguang Expressway	321,130	165,560	48.44	4.78	3.94	Increased by 0.41 pct.pt
Yanpai Expressway	161,218	80,306	50.19	-24.39	-12.71	Decreased by 6.67 pct.pt
Yanba Expressway	172,652	109,146	36.78	-4.10	-0.16	Decreased by 2.50 pct.pt
Meiguan Expressway	103,245	61,251	40.67	-31.61	-30.83	Decreased by 0.67 pct.pt
<b>Subtotal</b>	<b>2,908,162</b>	<b>1,345,836</b>	<b>53.72</b>	<b>-3.31</b>	<b>-8.42</b>	<b>Increased by 2.58 pct.pt</b>
Shuiguan Expressway	105,895	73,614	30.48	N/A	N/A	N/A
<b>Total</b>	<b>3,014,057</b>	<b>1,419,450</b>	<b>52.91</b>	<b>0.21</b>	<b>-3.41</b>	<b>Increased by 1.77 pct.pt</b>
Breakdown of main business by region						
Region	Revenue	Cost of services	Gross profit margin (%)	YOY change in revenue (%)	YOY change in cost of services (%)	YOY change in gross profit margin (%)
Guangdong Province	2,682,464	1,240,615	53.75	0.00	-4.12	Increased by 1.99 pct.pt
Hubei Province	331,593	178,835	46.07	1.97	1.79	Increased by 0.09 pct.pt
<b>Total</b>	<b>3,014,057</b>	<b>1,419,450</b>	<b>52.91</b>	<b>0.21</b>	<b>-3.41</b>	<b>Increased by 1.77 pct.pt</b>

### Description on the breakdown of main business by industry and product:

During 2015, the overall gross profit margin of the Group's ancillary toll highways was 52.91%, representing an increase of 1.77 percentage points in general. Among which, the gross profit margins of both Jihe East and Jihe West increased following the growth of their toll revenue and the adjustment of unit amortisation amount of concession intangible assets. The decrease in toll revenue has resulted in a decrease in gross profit margins of Qinglian Expressway, Yanpai Expressway and Yanba Expressway.

Given the nature of the Group's business, the target customers of sale of toll highways are not specific. Apart from toll fee revenue, the total revenue from the top five customers of the Group amounted to RMB113,017,000, accounting for 3.30% of the overall revenue of the Group.

## (2). Analysis of Cost

During 2015, the cost of services of the Group amounted to RMB1,678,748,000 (2014: RMB1,705,256,000), representing a YOY decrease of 1.55%. Among which, Consulting Company and Qinglong Company had been consolidated into the Group's financial statements during the Reporting Period, resulting in an increase of cost of services of RMB143,284,000 and RMB73,614,000, respectively during the Reporting Period. After excluding the effect on the change of scope of consolidation, the cost of services recorded a YOY decrease of 14.27%, which was mainly attributable to the YOY decreases in cost of entrusted construction management services and depreciation and amortisation expenses and special maintenance expenses of ancillary toll highways during the Reporting Period. The detailed analysis of the cost of services is set out as follows:

unit: '000 Currency: RMB

Breakdown by industry							
Industry	Cost items	Amount for the current period	Amount for the current period as a percentage of total costs (%)	Amount for the corresponding period of last year	Amount for the corresponding period of last year as a percentage of total costs (%)	Change in amount for the current period as compared to the corresponding period of last year (%)	Description
Cost of main business – toll highways	Employee expenses	231,983	13.82	194,709	11.42	19.14	❶
	Road maintenance expenses	139,346	8.30	156,397	9.17	-10.90	❷
	Depreciation and amortisation	865,679	51.57	944,029	55.36	-8.30	❸
	Other business costs	182,442	10.86	174,439	10.23	4.59	
	<b>Sub-total</b>	<b>1,419,450</b>	<b>84.55</b>	<b>1,469,574</b>	<b>86.18</b>	<b>-3.41</b>	<b>❹</b>
Cost of other businesses – entrusted management services	39,480	2.35	172,475	10.11	-77.11	❺	
Cost of other businesses – services such as engineering consulting	143,284	8.54	N/A	N/A	N/A	❻	
Cost of other businesses – advertising and others	76,534	4.56	63,207	3.71	21.08		
<b>Total of cost of services</b>	<b>1,678,748</b>	<b>100.00</b>	<b>1,705,256</b>	<b>100.00</b>	<b>-1.55</b>		

### Description:

- ❶ Mainly represents the consolidation of Qinglong Company into the financial statements, which has resulted in an increase in employee expenses, the adjustment of the salaries and an increase in average number of toll-collection staff.
- ❷ Mainly due to Qinglian Company's completion of the maintenance and transfer of Qinglian Class 2 Road during 2014 and recognised road maintenance cost of RMB38,000,000.
- ❸ Mainly as a result of the Group's disposal of the related assets of Toll Free Section of Meiguan Expressway during the second quarter of 2014, adjustment of unit amortisation amount of the concession intangible assets in some toll highways since the fourth quarter of 2014, and a decrease in depreciation and amortisation costs resulting from the decrease in traffic volume in certain road sections.
- ❹ Costs presented based on detailed items are set out in point (1) above.

⑤ Cost of entrusted construction management services mainly represents employee expenses related to the project management and other service cost arising from the audit results on the projects made by the government and the contractual commitment. The entrusted management cost recognised during the year primarily included the cost of construction management services of Coastal Phase I and Guilong Project, which amounted to RMB15,708,000 and RMB5,680,000 respectively, representing a decrease of RMB135,053,000 and RMB19,836,000 respectively as compared to the corresponding period of last year.

⑥ Consulting Company has been consolidated into the Group's financial statements since 1 July 2015, which has resulted in an increase in the cost of services of RMB143,284,000 during the Reporting Period.

The purchases from the Group's top five suppliers amounted to RMB150,722,000, accounting for 19.30% of total purchases of the Group.

## 2. Expenses

The Group's selling expenses for the year 2015 amounted to RMB14,102,000 (2014: RMB4,778,000), representing a YOY increase of 195.14%. The increase was mainly attributable to the increase in marketing expenses of Guilong Development Project.

The Group's general and administrative expenses for the year 2015 amounted to RMB134,012,000 (2014: RMB88,494,000), representing a YOY increase of 51.44%. The increase was mainly attributable to consolidation of Consulting Company into the Group's financial statements, which has resulted in an increase in the Group's general and administrative expenses and service charges of intermediary institutions.

The Group's financial expenses for the year 2015 amounted to RMB370,700,000 (2014: RMB419,278,000), representing a YOY decrease of 11.59%, which was mainly attributable to the decrease in the Group's average borrowing scale and capital costs during the Reporting Period. For details of the borrowing scale, please refer to the relevant contents as set out in point (III) below. The detailed analysis of financial expenses is as follows:

Unit: '000 Currency: RMB

Financial expenses item	2015	2014	Change (%)
Interest expenses	489,200	525,036	-6.83
Less: Interest capitalised	4,110	83	4,861.10
Interest income	124,480	107,937	15.33
Exchange gain/loss and others	-5,896	4,941	N/A
Add: Time value of provisions for maintenance/resurfacing obligations of highways	4,194	7,203	-41.76
<b>Total financial expenses</b>	<b>370,700</b>	<b>419,278</b>	<b>-11.59</b>

During 2015, the Group's income tax expenses amounted to RMB177,177,000 (2014: RMB695,448,000), representing a YOY decrease of 74.52%. Such decrease was mainly attributable to the significant increase in taxable income as a result of the recognition of gains on disposal of Meiguan Assets in 2014 and the reduction of the carrying amount of deferred tax assets of Qinglian Company by RMB45,934,000 during the Reporting Period. Details of the Group's applicable income tax rate and income tax expenses for the year are set out in notes IV and V\41 to the Financial Statements in this announcement.

### 3. Investment Income

During 2015, the Group recorded investment income of RMB1,154,991,000 (2014: RMB187,042,000), representing a YOY increase of 517.50%. During the Reporting Period, Qinglong Company and Consulting Company had been consolidated into the Group's financial statements and the equity interests held prior to the acquisition date were remeasured at fair value and thus led to an increase in investment income of RMB904,017,000. In addition, the Group received the annual dividend of RMB3,000,000 for the year 2014 from Guangdong UETC. After excluding effects of the two factors mentioned above, the investment income from joint ventures and associates attributable to the Group during the Reporting Period amounted to RMB247,974,000 (2014: RMB187,042,000), representing a YOY increase of 32.58%, which was mainly attributable to the considerable growth of toll revenue from most toll highway projects operated by the joint ventures and associates as a result of the effects of a combination of factors including improvement of regional road networks and the organic growth of traffic volume, as well as the overall decrease in borrowing scale and financial costs. Among which, Changsha Ring Road has recorded a significant growth in attributable investment income due to increased income growth and significant decrease in special maintenance expenses for road surfaces. The detailed analysis of investment income from joint ventures and associates is as follows:

Unit: '000 Currency: RMB

Toll highway	Toll revenue		Cost of services		Gross profit margin		Investment income of the Group <sup>Note</sup>	
	2015	Change (%)	2015	Change (%)	2015	Change (pct. pt)	2015	Change
<b>Joint ventures:</b>								
Changsha Ring Road	81,304	32.66	45,461	-64.00	44.09	150.13	13,823	39,054
<b>Associates:</b>								
Shuiguan Expressway	455,216	N/A	149,158	N/A	67.23	N/A	73,042	2,507
Shuiguan Extension	92,618	9.93	68,169	4.86	26.40	3.56	2,163	3,401
Yangmao Expressway	618,404	9.50	159,256	-9.11	74.25	5.27	79,685	14,748
Guangwu Project	326,278	11.46	114,721	-6.74	64.84	6.86	37,431	9,694
Jiangzhong Project	389,305	4.64	257,708	3.30	33.80	0.86	10,998	3,782
GZ W2 Expressway	361,450	7.97	150,931	4.53	58.24	1.37	-450	-14,259
Nanjing Third Bridge	379,786	-4.84	130,188	-3.73	65.72	-0.40	31,733	6,084
<b>Total</b>	/	/	/	/	/	/	<b>248,425</b>	<b>65,011</b>

Note: The recognised investment income resulting from the remeasurement of the equity interests held by Qinglong Company and Consulting Company prior to the acquisition date at fair value of RMB904,017,000, investment income from Guangdong UETC of RMB3,000,000 (2014: nil), investment income from Consulting Company of RMB2,286,000 (2014: RMB4,505,000) and investment income from United Land Company of RMB-2,738,000 (2014: RMB-877,000) were not included in the figures of investment income of the Group as set out in the above table. During the Reporting Period, GZ W2 Company adjusted and recognised the related income tax expenses in prior years in accordance with relevant requirements, resulting in a decrease in the Group's investment income of RMB24,548,000. Data of Shuiguan Expressway was the relevant data from January to October 2015. Details are set out in notes V\10 and 38 to the Financial Statements in this announcement.

#### 4. Non-operating Income

During 2015, there was a significant decrease in the Group's non-operating income, which was mainly resulted from the Group's disposal of the related assets of Toll Free Section of Meiguan Expressway and the recognition of gains on disposal of assets during 2014.

#### 5. Cash Flow

**Descriptions on the reasons for changes in net cash flows from operating activities:** The toll revenue of the Group's principal toll highway operations is collected in cash, thereby providing the Group with a steady operating cash flow. During 2015, the Group's net cash inflows from operating activities and cash return on investments<sup>Note</sup> totalled RMB1,942,475,000 (2014: RMB1,888,989,000), representing a YOY increase of 2.83%, which was mainly due to the fact that Qinglong Company and Consulting Company had been consolidated into the financial statements during the Reporting Period, resulting in an increase in the Group's net cash flows from operating activities and a YOY increase in cash received from investment income.

*Note: Aggregated figures of net cash inflows from operating activities and cash return on investments = Net cash flows from operating activities + Cash received from investments + Cash received from investment income.*

*According to the articles of association of the Company's joint ventures and associates, those companies will distribute cash to their shareholders if the conditions for cash distribution are fulfilled. According to the characteristics of the toll highway industry, such cash return on investments will provide continuous and stable cash flow. The reason that the Company provided the aggregated figures of net cash inflows from operating activities and cash return on investments was to help the users of the financial statements understand the performance of recurring cash flow from the Group's operating and investing activities.*

**Descriptions on the reasons for changes in net cash flows from investing activities:** The Group received compensation for toll adjustment of Meiguan Expressway in the amount of RMB2 billion and paid for the investment in companies such as United Land Company and Bank of Guizhou in the amount of approximately RMB1.3 billion during the Reporting Period. The net cash inflows from investing activities amounted to RMB580 million and basically remained at the same level as last year.

**Descriptions on the reasons for changes in net cash flows from financing activities:** During the Reporting Period, the Group received prepayment from the Shenzhen government for compensation for the toll adjustment of the Three Projects in the amount of RMB6.588 billion. As the prepayment will bear interest, it is classified as cash inflows from financing activities, resulting in a significant increase in the net cash inflows from financing activities during the Reporting Period as compared to last year.

#### 6. Amortisation Policies of Concession Intangible Assets and the Difference of Amortisation Methods

The Group's concession intangible assets are amortised based on the units-of-usage method. The amortised amount is calculated, based on usage amount per unit, by the percentage of the actual traffic volume in the respective periods to the total projected traffic volume during the toll operating period. The Group conducts regular review on the projected traffic volume and makes corresponding adjustments to ensure the truthfulness and accuracy of the amortised amount. Details of this accounting policy and accounting estimates are set out in notes III\18(1) and 29(2) to the Financial Statements in this announcement

During the preliminary stages of toll highway operation and before reaching their designed saturated traffic volumes, the amortised amount calculated by the units-of-usage method is lower than that calculated by the straight-line method. During 2015, the difference in amortisation amount attributable to the Company calculated by using the two amortisation methods based on its share of interests was RMB180 million, representing a YOY increase, which was mainly attributable to the decrease in traffic volumes of Qinglian Expressway and Yanpai Expressway as well as the adjustment made to the unit amortisation amount of Jihe East and Jihe West. The adoption of different amortisation methods had no impact on the cash flow generated by various toll highway projects and thus had no impact on the valuation of various projects.

## **(II) Description on Material Changes in Profits from Non-main Business**

### **1. The investment income resulted from the remeasurement of equity interests held by the acquiree prior to the acquisition date at fair value**

Qinglong Company and Consulting Company were former associates of the Company, which were owned as to 40% and 24% by the Company, respectively. During the Reporting Period, the Group has obtained effective control over Qinglong Company and Consulting Company and they have been consolidated into the Group's financial statements. According to the relevant requirements of Accounting Standards for Business Enterprises, when preparing the consolidated financial statements, the equity interests held prior to the acquisition date shall be remeasured based on the fair values of such equity interests on the acquisition date, and the difference between the fair values and their carrying amount shall be credited as investment income of the current period. The remeasurement has resulted in an increase of RMB899,490,000 and RMB4,527,000 respectively in the Group's net profit during the Reporting Period. Details of business combinations involving enterprises not under common control during the Reporting Period are set out in note III\29(6) and note VI\2 to the Financial Statements in this announcement.

### **2. Impairment Provisions for the Concession Intangible Assets of Qinglian Expressway**

As the diversion impact on Qinglian Expressway caused by newly constructed neighboring road sections was larger than expected, according to the relevant requirements of the Accounting Standards for Business Enterprises, in order to more genuinely reflect the financial position and asset value of the Group, during the Reporting Period, the Group has made impairment provisions of RMB620,000,000 for the concession intangible assets of Qinglian Expressway based on the prudence principle and the assessment results from professional institutions, resulting in a decrease of the Group's net profit for the Reporting Period of RMB355,121,000.

Details on the asset impairment are set out in note III\29(5) to the Financial Statements in this announcement. The aforesaid provisions for asset impairment have been considered and approved at the twelveth meeting of the seventh session of the Board of the Company. For details, please refer to the announcements of the Company dated 29 January 2016 on the resolutions of the Board and provisions for asset impairment.



### **3. Reduction of the Carrying Amount of Deferred Tax Assets of Qinglian Company for Deductible Loss**

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 RMB45,934,000 at the end of 2015, resulting in a decrease of the Group's net profit for the Reporting Period of RMB35,080,000.

For details of the changes in accounting estimates, please refer to the relevant content in point V below.

### **(III) Analysis of Assets and Liabilities**

The Group's assets mainly comprise the concession intangible assets in high-grade toll highways and equity investments in the companies operating toll highways, which accounts for 65.20% of its total assets, while cash at bank and on hand as well as other assets account for 20.28% and 14.52% of its total assets, respectively. As at 31 December 2015, the Group's total assets amounted to RMB31,670,655,000 (31 December 2014: RMB24,329,324,000), representing a YOY increase of 30.17%. The increase was mainly attributable to the prepayment from the Shenzhen government for compensation for the toll adjustment of the Three Projects and consolidation of Consulting Company and Qinglong Company into the Group's financial statements during the Reporting Period.

As at 31 December 2015, the total outstanding interest-bearing liabilities of the Group amounted to RMB13,275,685,000 (31 December 2014: RMB8,048,610,000), representing an increase of 64.94% as compared to the end of 2014. The increase was mainly attributable to the prepayment from the Shenzhen government for compensation for the toll adjustment of the Three Projects and early repayment of part of long-term borrowings during the Reporting Period. In 2015, the average size of the Group's borrowings was RMB8.38 billion (2014: RMB8.91 billion), representing a YOY decrease of 5.95%.

## 1. Analysis of Assets and Liabilities

Unit: '000 Currency: RMB

Name of item	Amount as at the end of the current period	Amount as at the end of the current period as a percentage of total assets (%)	Amount as at the end of the previous period	Amount as at the end of the previous period as a percentage of total assets (%)	Change in amount as at the end of the current period as compared to the end of the previous period (%)	Description
Cash at bank and on hand	6,422,378	20.28	1,634,299	6.72	292.97	(1)
Assets classified as held for sale	169,004	0.53	-	-	N/A	(2)
Current portion of non-current assets(due within 1 year)	139,082	0.44	800,000	3.29	-82.61	(3)
Other current assets	18,880	0.06	34	-	55,096.59	(4)
Long-term advances to suppliers	6,851	0.02	3,815	0.02	79.60	(5)
Long-term receivables	68,710	0.22	1,291,780	5.31	-94.68	(6)
Intangible assets	19,271,776	60.85	16,154,662	66.40	19.30	(7)
Long-term prepaid expenses	10,980	0.03	2,385	0.01	360.43	(8)
Deferred tax assets	77,618	0.25	51,504	0.21	50.70	(9)
Other non-current assets	595,920	1.88	-	-	N/A	(10)
Advancedsd payment received	232,848	0.74	18,322	0.08	1,170.89	(11)
Employee benefits payable	154,056	0.49	107,549	0.44	43.24	(12)
Taxes payable	258,045	0.81	529,265	2.18	-51.24	(13)
Other payables	1,325,054	4.18	935,705	3.85	41.61	(14)
Current portion of non-current liabilities(due within 1 year)	1,836,241	5.80	1,022,387	4.20	79.60	(15)
Long-term borrowings	2,201,929	6.95	3,898,864	16.03	-43.52	(16)
Provisions	125,240	0.40	88,746	0.36	41.12	(17)
Deferred tax liabilities	1,339,813	4.23	773,462	3.18	73.22	(18)
Other non-current liabilities	6,067,060	19.16	59,874	0.25	10,033.05	(19)

### Descriptions:

- (1) Prepayment from the Shenzhen government for compensation for the toll adjustment of three projects and consolidation of Consulting Company and Qinglong Company into the Group's financial statements.
- (2) Intended transfer of the entire equity interests and creditors' right of Guizhou Pengbo and 51% equity interests of Guizhou Hengtongli, the related assets will be classified as assets held for sale from advances to suppliers.
- (3) Receipt of the second instalment of compensation for toll adjustment of Meiguan Expressway in the amount of RMB0.8 billion.
- (4) Payment of relevant tax for the proceeds from pre-sale of commodity housing of Guilong Development Project.
- (5) The consolidation of Consulting Company into the financial statements has resulted in an increase in the Group's long-term advances to suppliers.
- (6) Receipt of the third instalment of compensation for toll adjustment of Meiguan Expressway in the amount of RMB1.2 billion.
- (7) The consolidation of Qinglong Company into the financial statements has resulted in an increase in the concession intangible assets of the Group.
- (8) The consolidation of Consulting Company into the financial statements has resulted in an increase in the Group's long-term prepaid expenses.
- (9) Receipt of deductible temporary differences arising from the compensation for toll adjustment of Meiguan Expressway and operating cost of the new ramp.
- (10) Additional capital contribution in Bank of Guizhou has been paid in the amount of RMB596 million, but the relevant equity change registration have not been completed.

- (11) The consolidation of Consulting Company into the financial statements has resulted in an increase in the Group's advances from customers and an increase in the proceeds from pre-sale of commodity housing of Guilong Development Project.
- (12) The consolidation of Consulting Company and Qinglong Company into the financial statements has resulted in an increase in the Group's employee benefits payable.
- (13) Payment of income tax related to the gains on disposal of Meiguan Assets.
- (14) Prepayment from the Shenzhen government for compensation for the toll adjustment of the Three Projects in 2016.
- (15) Corporate bonds due in 2016 in the amount of approximately RMB1.5 billion were classified as current portion of non-current liabilities. Also, part of the long-term borrowings and bonds fall due has been repaid during the Reporting Period.
- (16) Early repayment of part of the long-term bank borrowings.
- (17) Maintenance expenses of toll highways operated by subsidiaries were delayed as compared with the original plan.
- (18) The identifiable assets and liabilities of Qinglong Company are measured at the fair value on the date of consolidation, where part of asset premiums were recognised as deferred tax liabilities.
- (19) Prepayment from the Shenzhen government for compensation for the toll adjustment of the Three Projects (excluding received relevant compensation of toll adjustment in 2016).

## 2. Capital Structure and Debt Repayment Capability

The Company is always committed to maintaining a rational capital structure and constantly enhancing its profitability, so as to maintain its good credit ratings and solid financial position. Owing to the effect of various factors such as prepayment from the Shenzhen government for compensation for the toll adjustment of three projects and consolidation of Qinglong Company into the financial statements during the Reporting Period, the Group has recorded a significant increase in both assets and liabilities, however, the debt-to-asset-ratio and net borrowings-to-equity ratio as at the end of the period basically remained stable. As a result of the recognition of gains on disposal of Meiguan Assets in the corresponding period of prior year, the interest covered multiple and EBITDA interest multiple recorded a YOY decrease. Given the Group's stable and robust operating cash flows and its strong capability in financing and capital management, the Directors are of the view that the financial leverage ratios remained at safe levels as at the end of the Reporting Period.

Key indicators	31 December 2015	31 December 2014
<b>Debt-to-asset ratio</b> (Total liabilities/Total assets)	52.76%	46.07%
<b>Net borrowings-to-equity ratio</b> ((Total borrowings – cash and cash equivalents)/Total equity)	47.42%	51.78%
	2015	2014
<b>Interest covered multiple</b> ((Profit before tax + interest expenses)/Interest expenses)	4.38	6.57
<b>EBITDA interest multiple</b> (Earnings before interests, tax, depreciation and amortisation/Interest expenses)	6.20	8.42

## 3. Liquidity and Cash Management

During the Reporting Period, in view of the financial position and capital requirement of the Company, the Group replenished the working capital by withdrawing short-term loan, strengthened its capital arrangement on subsidiaries and major projects, maintained appropriate cash on hand and sufficient banking facilities so as to prevent liquidity risk.

During the Reporting Period, the Group received compensation for the toll adjustment of Meiguan Expressway of RMB2 billion and prepayment of compensation from the Shenzhen government for the toll adjustment of the Three Projects of RMB6.588 billion. Such funds were partly used as capital expenditure and replacement of existing borrowings during the year,

the remaining of which will be used to satisfy the Company's needs for development and operation in 2016. The Company has engaged in deposit value-added business with cooperative banks on the condition that both safety and liquidity of capital reserve can be assured. As at the end of the Reporting Period, the Group's cash was deposited in commercial banks, with no deposit in non-bank financial institutions or any amounts applied to investment in securities or entrusted wealth management.

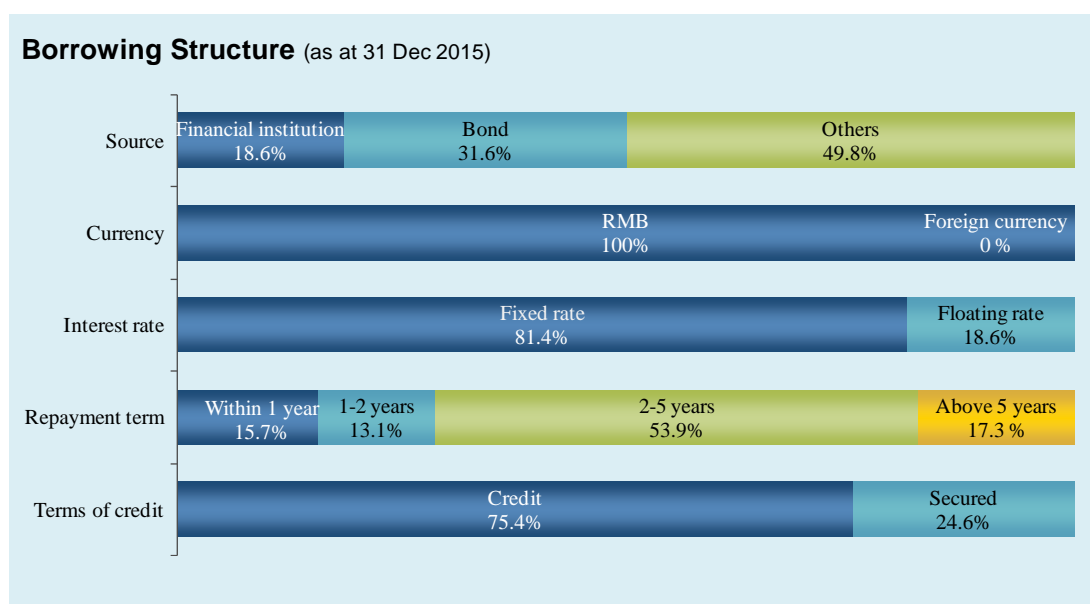
Unit: '000 Currency: RMB

	31 December 2015	31 December 2014	Change
Net current assets	4,314	1,092	3,222
Cash and cash equivalents	6,181	1,255	4,926
Banking facilities available	5,430	5,507	(77)

#### 4. Financial Strategies and Financing Arrangements

During the Reporting Period, market liquidity remained loose, the scale of credit grew rapidly and the funding rate in monetary market and bond market continued to show a downward trend. In accordance with the strategic goal and financial position of the Company and in view of the changes in the current capital market, the Company stepped up its efforts in exploring multi-level and multi-channel financing instruments of capital market, as well as improving the domestic and overseas financing channels and the centralised management platform for cross-border funds. The Company issued medium-term notes in the amount of RMB900 million bearing fixed interest with a term of 3 years in August 2015 and arranged repayment of debts of RMB4.17 billion. These were carried out in an effort to continue to optimise the capital structure and lower the composite capital costs of the Company, thereby providing financial reserves for the development of the Company.

The Group's composite borrowing costs for the Reporting Period amounted to 5.53% (2014: 5.81%), which was 0.28 percentage point lower than that in 2014. During the Reporting Period, the Group did not have any overdue principal and interests for bank loans and bonds. As at the end of the Reporting Period, the Group's borrowings comprised mainly medium to long-term borrowings and bonds. The specific borrowing structure is shown as follows:



During the Reporting Period, the Company continued to maintain the highest rating of AAA in credit rating for borrowing enterprises, the follow-up debt credit ratings of medium-term notes, enterprise bonds and corporate bonds issued were maintained at their original ratings of AAA or AA+.

As at 31 December 2015, the Group had obtained a total of RMB13.7 billion of banking facilities, including RMB7.5 billion of borrowing facilities specifically for construction projects and RMB6.2 billion of general credit facilities. As at the end of the Reporting Period, unutilised banking facilities amounted to RMB5.43 billion, of which RMB210 million were borrowing facilities specifically for construction projects and RMB5.22 billion was general credit facilities from banks.

## 5. Contingencies

Details on the Group's contingencies during the Reporting Period are set out in note XI(2) to the Financial Statements in this announcement.

### (IV) Analysis of the Investment

#### 1. General analysis on external investments

##### (1) Material equity investments

During the Reporting Period, the total equity investment of the Group amounted to RMB1,347 million (2014: RMB482 million), representing a YOY increase of RMB865 million or 179.46%. The details of material equity investments in 2015 are as follows:

Unit: '000 Currency: RMB

Name of investee companies	Major business	Shareholding	Investment Amount in 2015	Description
Bank of Guizhou	Deposit and loan business; domestic clearing, bills acceptance and discounting; issuance, redemption and underwriting of various types of bonds; other businesses as approved by the banking regulatory authorities and related departments.	4.15%	595,920	In December 2015, the Company subscribed 382 million additional shares of Bank of Guizhou by way of capital contribution in the amount of RMB595,920,000. Upon completion of the subscription, the Company will hold 4.15% of the equity interests in Bank of Guizhou. As at 31 December 2015, the Company has settled this round of additional capital contribution, but the relevant procedures are still in process.
United Land Company	As the reporting entity and legal person for the Meilin Checkpoint Urban Renewal Project and be responsible for related works in acquiring the land, as well as demolition and relocation of the Meilin Checkpoint Urban Renewal Project.	49%	524,300	For details, please refer to the related content in "Business Review" above. The initial registered capital of United Land Company was RMB200 million. As at 31 December 2015, the aggregate capital contribution completed was RMB1.13 billion, of which the Company has made capital contribution of RMB553,700,000 in proportion to its shareholding.
Fameluxe Investment	Investment holding (holding 10% equity interests in Qinglong Company).	100%	220,000	In October 2015, Mei Wah Industrial, a wholly-owned subsidiary of the Company, acquired all issued shares of Fameluxe Investment at an initial consideration of RMB280 million, among which RMB220 million has been paid as at 31 December 2015.

## (2) Material non-equity investments

During the Reporting Period, the expenditures of the Group on material non-equity investments mainly comprised the settlements of projects such as upgrade of Qinglian Class I Highway to an expressway and the reconstruction and expansion for Meiguan Expressway, the investment in road properties and mechanical and electrical facilities of the highway sections operated by subsidiaries and capital expenditures of the subsidiaries, totaling approximately RMB128 million. The investments in major projects are as follows:

Unit: '000 Currency: RMB

Project name	Project amount	Project progress	Amount invested during the Year	Actual accumulated amount invested	Gains from the project
Qinglian Project	6,125,390	100%	26,110	6,067,470	For details of the operational performance of related projects during the Reporting Period, please refer to the Analysis of Main Business as set out above.
Nanguang Expressway	3,149,320	99%	6,128	3,074,150	
Reconstruction and expansion for Meiguan Expressway	703,271	100%	9,073	639,651	
Total	/	/	41,311	9,781,271	

## (V) Analysis of major controlling companies and participating companies

Unit: '000 Currency: RMB

Company name	Percentage of interests held by the Group	Registered capital	31 December 2015		2015			Principal business
			Total assets	Net assets	Revenue	Operating profit	Net profit/(Net loss)	
Meiguan Company	100%	332,400	568,453	631,418	119,205	98,222	94,487	Construction, operation and management of Meiguan Expressway
Jihe East Company	100%	440,000	2,285,406	1,965,516	637,733	338,282	253,252	Construction, operation and management of Jihe East
Mei Wah Company	100%	HK\$795,381	1,977,325	1,584,129	337,237	137,537	50,788	Indirectly holding 25% interests in Qinglian Company, 10% interests in Qinglong Company and 55% interests in Magerk Company
Qinglian Company	76.37%	3,361,000	7,939,613	2,540,753	641,550	(662,262)	(542,797)	Construction, operation and management of Qinglian Expressway and related auxiliary facilities
JEL Company/Magerk Company	55%	US\$28,000	941,319	795,821	337,237	147,530	110,510	JEL Company: investment holding (holding interests in Magerk Company); Magerk Company: toll collection and management of Wuhuang Expressway
Qinglong Company	50%	324,000	4,646,144	2,615,859	108,045	19,356	15,462	Development, construction, toll collection and management of Shuiguan Expressway
Investment Company	100%	400,000	1,303,197	776,422	31,031	(1,731)	6,094	Investment in industries and project construction
Guishen Company	70%	500,000	1,279,298	740,409	10,089	(8,832)	(1,430)	Investment, construction and management of road and urban and rural infrastructure

## **(VI) Proposed Profit Distribution**

The Company's 2015 audited consolidated net profit and the net profit of the parent company in accordance with CASBE were RMB1,552,656,397.24 and RMB312,929,383.85 respectively. Pursuant to the relevant PRC laws and regulations and the Articles of Association, the Company transferred RMB31,292,938.38 to statutory surplus reserve for the year 2015. The Board of the Company recommended the payment of a final dividend of RMB0.34 (tax included) per share in cash to all shareholders, totaling RMB741,461,910.84 for the year ended 31 December 2015, representing 47.8% of the net profit as shown in the consolidated financial statements for the year 2015. The balance be carried forward to next year. The Board did not recommend any conversion of capital reserve into share capital. Such proposal is proposed to be approved by shareholders at the 2015 Annual General Meeting of the Company.

### **1. Formulation, Implementation or Adjustment of Cash Dividend Distribution**

The Company has always adhered to principle of rewarding its shareholders and paid cash dividend for 18 consecutive years since its listing.

Pursuant to the Articles of Association, the Company shall implement the profit distribution policy of cash dividend actively with the principle of attaching great importance to reasonable return on shareholders' investment, as well as considering the needs of sustainable operation and development of the Company. The Articles of Association has a clear standard on cash dividend distribution and the minimum proportion of annual dividend, and has formulated sound decision-making procedures and mechanisms. Any modification by the Company to the profit distribution policy or failure of the Company in formulating or implementing the profit distribution proposal in accordance with the policy shall be proposed and considered at the general meeting as a special resolution. The decision-making procedures of the proposal of profit distribution (including the cash dividend scheme) of the Company for 2015 was in compliance with the requirement of the Articles of Association. In the course of formulation of and determination on the profit distribution proposal, the Independent Directors of the Company has issued an independent opinion based on careful study and analysis on the relevant factors, and the Company is also able to listen to the opinions of the Independent Directors and the shareholders from various channels, and concerns the requests and legal interests of the minority investors.

### **2. Proposal of Profit Distribution and Conversion of Capital Reserve into Share Capital of the Company in the Past Three Years**

Year of dividend distribution	Number of bonus issue (share) for every 10 shares	Dividend (RMB) for every 10 shares (including tax)	Total number of share (share) for conversion of capital reserve into share capital for every 10 shares	Total cash dividend (including tax)	Net profit in combined statements in the year of dividend distribution	Percentage (%) of dividend distributed to net profit in combined statements
2015 (Proposed)	0	3.40	0	741,461,910.84	1,552,656,397.24	47.8%
2014	0	4.50	0	981,346,646.70	2,186,883,365.49	44.9%
2013	0	1.60	0	348,923,252.16	719,691,617.00	48.5%

### **4.3 Outlook and Plans**

#### **(I) Industry Competition Landscape and Development Trend**

##### **1. Basic Assessment on the Operating Environment**

2016 marks the beginning of China's final stage in building a moderately prosperous society in all aspects, which is also going to be a tough year for its journey of structural reforms. As stated in the Central Economic Work Conference, the eco-social development of 2016, particularly the task of structural reforms, demands onerous efforts. Strategically, China will continue to adhere to the policy of "making progress while maintaining stability" by managing its pace and magnitude of development; technically, it will focus on key areas and prioritise cutting excessive capacities, de-stocking, de-leveraging, lowering costs and improving weak areas. In the foreseeable future, the Chinese economy will still maintain its growth to a certain extent, but would also be facing many difficulties and challenges. The volatility and uncertainties of the external environment will pose threats to the economic development in China in terms of currency, investment and trading. Moreover, the domestic economy will still be under more downside pressure, thus bringing down the profitability of corporates, leading to uncertainties in market expectation and damaging market confidence. Economic development determines the demand for transportation. Against this backdrop, there will be greater uncertainties in the operational performance of toll highway projects whereas more new problems may arise during the operation and management.

The operating environment of the toll highway industry is becoming more complex over time. In respect of the public and the criticism, there is demand for related public welfare despite their acknowledgement for our toll highway products and services. For national and local authorities, economic development gives rise to the demand for construction of transportation infrastructure including expressways. However, pressure will be put on those toll highway projects located in the economically developed regions or peripheral areas which could become the target of repurchase by the government. While investors will be confronted with sustainable development problems resulting from the operating period of toll highways, and their rate of investment returns will decrease as factor costs increase rapidly. In general, with the continuous reinforcement of the concept of the rule of law, it is expected that the policy guidance, criticism, public demand and reform of the toll highway industry will affect one another, promoting sound and healthy growth of the industry. During 2015, the government departments have successively launched policies such as 《基礎設施和公用事業特許經營管理辦法》 "Management Measures of Concession on Infrastructure and Utilities" and 《關於在收費公路領域推廣運用政府和社會資本合作模式的實施意見》 "Implementation Guidelines on Promoting Government and Social Capital Cooperation Models on Toll Highways", and published the 《收費公路管理條例(修訂稿)》 "Amendments to Toll Highway Management Ordinance", with a view to encourage and guide social capitals to be engaged in the investment and operation of infrastructure and regulate management in the industry, which will thus be favourable to the healthy growth of the industry in the long run. Against the backdrop of the inadequacy in funds for construction and the economic measure of diversified-ownership launched in China, opportunities for acquisition of quality toll highway projects or participation in project investment, construction and operation management by way of innovative investment or financing modes may arise.



Regarding infrastructure construction, the government is pushing forward and promoting the application of the PPP mode. As compared to traditional investment and financing modes, the PPP mode of cooperation is more complicated yet with more flexible and diversified modes of return, providing new business opportunities to the companies while imposing higher requirements for their capabilities in innovation of business modes. Using PPP mode in toll highway project can solve the problems of large investment scale, high construction cost and the lack of independent commercial investment value. Through the cooperation of the government and companies, the transportation demand for economic activities along the highway projects can be satisfied, at the same time providing reasonable business returns to the investors, ultimately leading to the win-win situation for all parties including the public, the government and companies.

Moreover, the progress of new form of urbanisation would induce huge demand for infrastructure construction or upgrade and reconstruction and for the maintenance management after the infrastructure have been put into use, thereby providing more business opportunities for the Company to develop its entrusted management business with its professional skill and experience. The Group will make use of its own construction and management experience, capital resources, land resources and geographical advantages to cooperate with the government or other companies, in which they will complement each other by hiding weaknesses and enhancing strengths to actively promote the construction, investment, operation and management of infrastructure.

In 2016, it is expected that the Central Bank of China will would adopt a more stable and healthy monetary policy to keep the liquidity reasonable and adequate, enhance pro-cyclical adjustments and fine-tuning and provide guidance for financial institutions to improve their credit structure; all of which will further strengthen the support towards economic and social development. The Company will closely follow the policy and market changes, identify and recognise various new policies, instruments, modes and risks, so as to make reasonable financing arrangement and lower the capital cost.

## **2. Analysis on Operating Conditions**

Since 2014, projects such as Meiguan Expressway, Yantian'ao Tunnel, Nanguang Expressway, Yanpai Expressway, Yanba Expressway and Longda Expressway in Shenzhen region have successively implemented toll adjustments or cancelled the toll collection; as such, all or part of the toll sections have been toll-free. Moreover, as some of the municipal roads and the road sections connected to the expressways commenced operation, there will be some changes and adjustments in traffic distribution and composition in the regional road network, resulting in certain positive or negative impacts on the Group's toll highway projects in Shenzhen region. For instance, the toll adjustment of Meiguan Expressway has a positive effect on its remaining sections and Jihe Expressway; on the other hand, the cancellation of toll collection in Yantian'ao Tunnel in Shenzhen has brought greater diversion impact on Yanpai Expressway; besides, after the implementation of the toll adjustment proposal of Nanguang Expressway, Yanpai Expressway, Yanba Expressway and Longda Expressway since 00:00 on 7 February 2016, the traffic volumes in toll free sections have shown faster growths, driving the growth of traffic volume in the connected Jihe Expressway, however, diverting the traffic volume to Nanguang Expressway and Longda Expressway from Meiguan Expressway and

resulting in the slight diversion on the traffic volume of Meiguan Expressway, and overall, having a positive impact on the traffic volume of the road networks in Shenzhen region.

Guangle Expressway (Guangzhou-Lechang, in Guangdong) and Erguang Expressway Lianzhou to Huaiji section (in Guangdong) will continue to have a diversion effect on Qinglian Expressway for a certain period of time in the future. The reconstruction and expansion work of Guangqing Expressway (Guangzhou-Qingyuan, in Guangdong), which connects to the southern end of Qinglian Expressway is currently in progress. The construction of the link between Guangqing Expressway and Qinglian Expressway has commenced in November 2014. According to information announced, the two construction projects will be completed by the end of 2016 and 2017 respectively. In addition, the construction of the link between Erguang Expressway and Qinglian Expressway is underway. Upon the completion of these projects, it is expected that the traffic efficiency and service capability of the whole expressway will be improved, making full use of its major traffic routes between Hunan and Guangdong Provinces, which will further optimise the competitiveness of Qinglian Expressway and enhance its operational performance.

## **(II) Development Strategies of the Company**

Based on the in-depth study of the changes in the development of both internal and external environment, the fourth meeting of the seventh session of the Board of the Company in June 2015 approved the “2015-2019 Development Strategies” of the Company. 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 prioritise 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 stabilising 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 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 **organisation strength and human resources**, the Company will commit itself to building an organisation 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 research 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.

### **(III) Operation Plans**

In 2016, the working goals and focuses for the Group are as follows:

- ☞ **Operating Targets:** Based on the reasonable analysis and expectation on our operating environment and operating conditions, the Group has set a revenue target for 2016 of not less than RMB4.1billion, with the total of operating costs, management expenses and selling expenses (excluding depreciation and amortisation) of approximately RMB1.55billion. In 2016, it is expected that the average borrowing scale (including the received related compensation in advance from Shenzhen government regarding the toll adjustment of Three Expressways) and the financial cost of the Group will be higher on a YOY basis.
- ☞ **Toll Highway Business:** Deepen the internal management, enhance the overall operation management quality and operational service standard. Improve the operation management of inter-network toll collection in various aspects, including ensuring the stability and timeliness of the toll and clearing systems, as well as making amendment and verification for road network data models so as to provide support for decision-making. Adopt customised promotion and marketing strategies to meet the toll revenue target. Vigorously carry out the preventive maintenance works and pursue the concept of optimal maintenance cost control during the whole operation period through innovation in both technology and management.
- ☞ **Construction Management Business:** Improve construction efficiency and reduce cost by preparing preliminary organisation and planning and adopting standardised management for design of the projects. Improve the planning on tender management and regulate the preparation and review on tender documents and tender basis documents for the construction projects, enhance procedure control and management, and strengthen its control over changes in construction projects and establish a dynamic cost management system, so as to effectively control the construction cost of projects through standardised and refined contract management. Consolidate its experience in entrusted construction management to ensure the co-ordination for the collection of entrusted construction account receivables and actively explore opportunities to develop new entrusted construction business.

- ❧ **Project Development and Management:** Push forward the work progress of various activities related to Guilong Project. Successfully proceed the research and negotiations for the operation management mode for Coastal Project and the development mode for Meilin Checkpoint Renewal Project. Put more efforts in the research, reserves, selection and examination of both toll highway projects and new projects developed through exploration of new industries, as well as ongoing risk monitoring and management.
- ❧ **Financing and Financial Management:** Strengthen the management of the Group's financial resources and enhance the use of funding in a planned and prospective manner, so as to prevent capital risks. Conduct an in-depth research on diversification of the shareholder base and equity financing, establish a platform for domestic and overseas financing, make comparison and selection among various financing instruments and products, expand financing channel and lower capital cost. Comprehend the financial policies and the change in market condition in a timely manner, adjust the overall financing strategy and the execution plan in phases in due course so as to provide support for the implementation of new strategies.

#### (IV)Capital Expenditure Plan

As at the approval date of this report, the Group's capital expenditure plan mainly comprised investment in Outer Ring Project, construction settlements of projects such as reconstruction and expansion of Meiguan Expressway and investment in road properties and mechanical and electrical equipment of the highway sections operated by subsidiaries as well as the planned investments on associates. By the end of 2018, it is expected that the Group's total capital expenditure will amount to approximately RMB7.877 billion. The Group plans to satisfy such capital needs with its own capital and bank borrowings. According to the Directors' assessment, the Group's financial resources and financing capability are currently sufficient for satisfying the needs of various capital expenditures. The capital expenditure plan of the Group from 2016 to 2018 is as follows:

Unit: RMB'000 Currency: RMB

Project	2016	2017	2018	Total
1. Investment of intangible assets and fixed assets				
Outer Ring Project	758,940	2,623,360	2,259,110	5,641,410
Reconstruction and expansion of Meiguan Expressway	63,620	-	-	63,620
Qinglian Project	56,550	1,370	-	57,920
Nanguang Expressway	66,490	7,320	1,360	75,170
Other Projects (Investment in mechanical and electrical equipments, etc.)	96,920	-	-	96,920
2. Capital injection to associates				
United Land Company <sup>Note</sup>	1,896,300	-	-	1,896,300
Fameluxe Investment	46,000	-	-	46,000
<b>Total</b>	<b>2,984,820</b>	<b>2,632,050</b>	<b>2,260,470</b>	<b>7,877,340</b>

Note: The investment plan on United Land Company is made on the assumption that there is no transfer of the shareholding in such company in the future and the current specific work plan in respect of the land transfer as well as demolition and relocation of Meilin Checkpoint Renewal Project. In the event that there is any change in the abovementioned basic assumption and work plan, the relevant capital expenditure plan will be adjusted accordingly.

## **(V) Risk Management**

Through active identification, assessment and response to risk issues occurred in the operation process, the Company applied risk management to all segments of the Company, including corporate strategies, planning, decision-making and operations. Currently, the Company focuses on internal and external risk issues in respect of policy, market, business expansion, investment, construction management as well as operation management.

### **1. Policy Risk**

#### *Risk position / analysis:*

With the expansion of the inter-network toll collection, upgrade and reconstruction of the software and hardware of the toll collection system, including the setup of identification stations and upgrade of display devices and monitoring system, may be required on an ongoing basis. These measures can strengthen the current operation management, at the same time increase the Group's related investment in equipment and subsequent cost of maintenance and management. The Shenzhen government implemented, in phases, restrictive policies on automobile purchase, restriction on the use of non-local small passenger vehicles during certain time-slots and substantial increase in road parking charge to restrain the rapid growth of car ownership and reduce the rate of vehicle use. To some extent, negative impact on the current traffic volume and future traffic growth of regional road networks is expected accordingly. In addition, according to the related regulations on road and traffic safety management in Shenzhen, there is still a need to improve facilities such as lighting and monitoring system of the relevant road sections of the Group. The above policies will increase the investment and operational costs of the Company and exert greater pressure on management and coordination.

In the event that the "Replacing the business tax with value-added tax scheme" ("VAT Scheme") is fully put into effect by the Government, the income, cost, profit and cash flow of the Company will be affected. At the same time, 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 establish higher requirement on supplier management, contract design and management. Currently, the specific plan and implementation schedule are not determined yet.

#### *Management / response measures:*

Inter-network toll collection is beneficial to enhancing the traffic efficiency and service standard of toll highway network, and to the long term development of the industry. With the expansion of coverage of the inter-network system and technology innovation, as well as reasonable upgrade and reconstruction of the software and hardware of the toll collection system and ancillary facilities to toll highways, the management level of toll highways was enhanced. This will help to enhance the traffic efficiency, traffic safety, users' experience on toll highways and thus enhance their competitiveness. The Group would optimise technical projects and implementation plans after satisfying regulatory requirements and make reasonable saving of the investment cost.

The Group will actively follow up and study the formulation, introduction and implementation

progress of the VAT Scheme, organise the deployment and training of staff, streamline business flow, arrange contract files in order and analyse financial impact in advance. The Group will also organise studies and proposals of tax planning in a timely manner, actively communicate with and provide feedback to related government departments, and strive for understanding and improvement, so as to reduce and minimise the adverse impact.

## **2. Market Risks**

### *Risk position / analysis:*

With further expansion and improvement of the expressway network, the number of parallel roads or substitutive routes will constantly increase, which will bring negative impact on the growth of the Group's toll revenue. For details of the possible diversion impact on the Group's projects at current stage, please refer to the above analysis heading "Industry Competition Landscape and Development Trend". As the diversion impact of Guangle Expressway and Erguang Expressway (Lianzhou to Huaiji section, in Guangdong) on Qinglian Expressway has temporarily stabilised, the Group has made impairment provisions for the concession intangible assets of Qinglian Expressway. However, if the positive or negative impact on Qinglian Expressway resulting from future change in road networks is larger than expected, the valuation of the project may be further affected.

### *Management / response measures:*

Based on the actual condition of the regional road networks, the Group will reasonably formulate the annual operation plan and continuously follow up the change in the layout of road networks and its trend. By fully utilising the informatised data platform, and mastering the characteristics of the change in traffic volume and particular factors causing the change, the Group will adopt targeted marketing and guidance measures in advance, in order to promote improvement of road networks and thus increase the positive impact or reduce the negative impact on the Group's projects. Meanwhile, the Group will continue to increase the competitiveness of the projects through provision of good traffic service and enhancement of traffic efficiency.

## **3. Business Expansion Risks**

### *Risk position / analysis:*

The Group carried out Guilong Project by using Guishen Company as a platform, and participated in the regional road construction and development by adopting BT mode. In order to reduce the risk of funds recovery and generate the expected revenue, Guishen Company also participated in the bid for the related land, and took advantage of this opportunity to conduct further development of part of the land. As the reporting and implementing entity of Meilin Checkpoint Renewal Project, United Land Company has obtained the land use right of Meilin Checkpoint Renewal Project Land Parcels as scheduled; however, the relocation and cleaning up works in relation thereof is still in progress, which might result in risks such as increase in expropriation and demolition costs. Funds recovery and value realisation of land are exposed to change in policies related to government budget management and management in land and real estate industry, as well as risk of fluctuations in land market price, which will directly affect the realization of commercial value of projects and in turn increase the investment and financial

risks of the Company. The Company also invested in Bank of Guizhou. The operating results and financial condition of which may be affected by unfavourable factors, including macroeconomic downturn, interest rate fluctuations and interest rate liberalisation, as well as challenges resulting from market competition.

The Company has included “actively explore and determine new direction for industry development” in its new strategies. As there were differences between the new business and toll highway business, if the Company’s capability on capturing the market opportunities, business experience, management model and human resources fail to bridge the differences, the project revenue, capital safety, business expansion achievement and the overall performance of the Group may be affected.

*Management / response measures:*

The Group has conducted in-depth study and research on the related risk of Guilong Project, and will continue to adopt various risk control measures through our Investment Company and Guishen Company. The Group will closely follow up the implementation of funds recovery plan and the procedure of payment to ensure timely recovery and repayment of funds. For Guilong Development Project, the Group strived to control development cost and utilised the competitive advantages of the project with respect to marketing plans and promotional activities and strengthened the sales management. For Meilin Checkpoint Renewal Project, the Group will procure United Land Company to actively communicate with relevant government departments and the subject of demolition, and adopt different working measures for different entities with clear work orders, so as to complete the demolition in a reasonable and legitimate manner. Meanwhile, the Group will closely follow up the change in national and local policies and regulations on land, and maintain communication and cooperation with the local government. The Group will seriously study the change in related industry policies and the market condition, actively explore channels and methods to realise land value, enhance preliminary market research, conduct thorough comparison and take reference, grasp the trend of changes in the target market, make reasonable arrangement on the scale and pace of project development, and timely adjust investment strategies or product development direction. For the investment in Bank of Guizhou, the Company will exercise shareholders’ rights according to laws and closely follow the actual operation of Bank of Guizhou to achieve better risk control and management.

The Group has carried out thorough and objective analysis on its own strength and the external environment and clearly stated the principles of industry development, including compliance with the national policy guidance for the industry, effective use of the Company’s competitive resources, fully unleashing the core competitiveness of the Company and the principles on scale and reproduction. The Group will respect the objective market pattern to, based on the features of new industries exploration, establish operating procedures, management system as well as incentive and appraisal mechanism, so as to achieve liberalisation of new industries exploration. Moreover, after enhancement of the training for team capability, the Group will also engage professionals and organisations to advise on management and take charge of specific works, and integrate the high quality resources in the industry to ensure the intended effect.

#### **4. Investment and Financing Risk**

##### *Risk position / analysis:*

The Company has a pre-emptive right for the development of Outer Ring Expressway. However this project requires large scale of investment and a long return period, and lacks independent commercial investment value. Although the Group has reached an agreement with the Shenzhen government on matters regarding the investment, construction and management of Section A of Outer Ring (subject to approval of the general meeting), as the first toll highway project undertaken by the Group by applying PPP mode, its investment and financing models are different from the traditional one, and the rights and obligations among all participating parties during the implementation of the project are also different from the traditional mode. Such differences impose new requirements on the Group in various aspects, including value assessment, contract design, financing arrangement, project management and communication and coordination, which also bring uncertainties to the Group's operation. In addition, the Group will continue to build up the reserves of toll highway projects and select the projects that are in line with its investment principle. The accuracy of assessment on aspects such as the business models, investment value and cooperative partners of these projects will likely affect the Group's operating results and financial position.

##### *Management/response measures:*

The investment, construction and management of Section A of Outer Ring by adopting PPP model is a proposal after long-term negotiations, close communication and detailed assessment between the government and the Company. As such, the demand for social development and commercial returns can be both satisfied and will ultimately lead to a win-win situation for all parties including the public, the government and the Company. With the extensive experience in project construction management and entrusted construction management business accumulated over the years, the Group is confident in handling works in relation to project construction and communication with the government properly. In respect of project financing, apart from assessment on the value of the projects, the Group will make reasonable arrangement for financing and fund-raising plan over the construction period and operation period, which will also effectively reduce financial risks of the projects. As for value assessment and contract design of investment projects, the Group will fully leverage the innovative capability of its business model to conduct comprehensive assessment and estimation on the value of the projects. It will also clearly define rights and responsibilities as well as implement risk control through execution of commercial contracts.

#### **5. Operation Management Risks**

##### *Risk position/analysis:*

The expansion of the inter-network toll collection called for higher requirements on the stability of the toll collection system, accuracy and timeliness of data division and settlement system. Abnormality of the system and management procedure may lead to inaccuracy in data division and delay in settlement, which will thus affect the interests and market image of the Company. Moreover, upon the expansion of the toll collection network, the extent and degree of impact of toll evasion incidents such as gate crashing and fake cards and free pass as a result



of improper management have increased, which will result in a higher possibility of decrease in toll revenue.

If problems occurs in technical scheme, construction management and traffic organisation of road maintenance and preventive maintenance programs, the cash payments and subsequent maintenance costs of the Company will increase, and the traffic flow and traffic safety on related road sections will also be affected. In addition, the implementation of preventive maintenance programs of roads may be adjusted according to the actual conditions and the extent of damage in the highways, therefore, there is risk that the overall expenditure of the programs may overrun.

***Management/response measures:***

The Group will timely handle the problems that arise in the toll collection procedure and analyse and summarise the reasons thereof, actively coordinate and contact with the related departments/units, system suppliers and other toll highway companies, optimise operation procedures, improve and increase the stability and reliability of the system, and assure efficiency and accuracy of the settlement. Through various measures such as standardising business operation, executing effective audit management, cooperation with police unit and media publicity, the Group will seek to prevent and stop toll evasion incidents, and fully utilise the provincial-wide inter-network database, so as to realise information sharing and improve management effectiveness.

The Group will further improve regular assessment and dynamic adjustment mechanism of the highway maintenance planning by conducting in-depth study of damage development trend, formulating reasonable technical scheme and controlling costs reasonably based on the concept of optimal maintenance cost control during the operation period, as well as on the basis of summarising and absorbing the past highway maintenance experience. Meanwhile, through the improvement of construction management and traffic organisation measures, the construction cost will be under effective control and the impact on traffic safety will be effectively reduced.

## **V. Matters Related to Financial Statements**

### **5.1 Changes in Accounting Policies and Accounting Estimates During the Reporting Period**

#### ***Changes in Accounting Policies***

##### **Changes in accounting estimates of deferred tax assets with deductible tax losses of Qinglian Company**

Based on the operating conditions of Qinglian Expressway in 2015 and the projected result of 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 income 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, in order to reasonably reflect the deferred tax assets with deductible losses as at the end of the period, the Group reduced the carrying amount of deferred tax assets of Qinglian Company by RMB45,934,000 at the end of 2015. These changes in accounting estimates are accounted for on a prospective basis, resulting in an increase of RMB45,934,000 of the Group's income tax expenses in 2015 and a corresponding decrease of RMB35,080,000 of the Group's net profit attributable to owners of the Company in 2015. Such changes in accounting estimates did not create a significant impact on the financial position and operating result of the Group in 2015.

The details of the changes of accounting estimates of the Company were set out in note III\28 to the Financial Statements in this announcement. The above changes of accounting estimates were considered and approved at the twelfth meeting of the seventh session of the Board of the Company. For details, please refer to the announcements of the Company dated 29 January 2016 on the resolutions of the Board and the changes in accounting estimates.

## **5.2 Accounting Errors Occurred during the Reporting Period**

There is no correction of accounting errors by the Company occurred during the Reporting Period.

## **5.3 Changes in the Scope of Consolidated Financial Statements during the Reporting Period**

In 2015, the subsidiaries newly consolidated into the scope of the Group's financial statements were included Guizhou Hengfengxin Property Company Limited, Guizhou Henghongda Property Company Limited, Guizhou Hengtongli Property Company Limited, Shenzhen Expressway Engineering Consulting Company Limited, Shenzhen Expressway Engineering Inspection Company Limited, Shenzhen Expressway Engineering information Company Limited, Fameluxe Investment Limited, Shenzhen Expressway Finance Limited and Shenzhen Qinglong Expressway Company Limited. For details, please refer to the note VI to the Financial Statement in this announcement.

## **5.4 The Consolidated Financial Statements and Notes for the Year 2015 of the Company are Set out in the Appendix to this Results Preliminary Announcement.**

## **5.5 Results Review**

The audit committee of the Company has reviewed and confirmed the financial statements and the annual report of the Company for the year 2015.

## **5.6 Auditors' Procedures Performed on This Results Preliminary Announcement**

The figures in the 2015 Annual Results Preliminary Announcement have been agreed by the Company's auditors, PricewaterhouseCoopers Zhong Tian LLP ("PwC Zhong Tian"), to the amounts set out in the Company's audited consolidated financial statements for the year 2015. The work performed by PwC Zhong Tian in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC Zhong Tian on this results preliminary announcement.

## **VI. Other Matters**

### **6.1 Purchase, Sale or Redemption of Securities**

During the Reporting Period, no listed securities of the Company were purchased, sold or redeemed by the Company, any of its subsidiaries or any of its joint ventures.

## 6.2 Compliance with the Corporate Governance Code

During the Reporting Period, the Company has fully adopted all the code provisions of the “Corporate Governance Code” as set out in Appendix 14 of the Listing Rules and there is no material deviation or breach of the code provisions occurred.

## 6.3 Compliance with the Model Code

The “Securities Transaction Code” of the Company has been adopted by the Board in accordance with Appendix 10 to the Listing Rules, as written guidelines to regulate dealings in the Company’s securities by the Directors, Supervisors and relevant staff. The “Securities Transaction Code” of the Company has incorporated the standards as set out in Appendix 10 to the Listing Rules, and gone beyond such standards to certain extents. After making specific enquiry to all the Directors, Supervisors and senior management, the Company confirms that all the Directors, Supervisors and senior management had complied with the standards for securities transactions as stipulated under the aforesaid code during the Reporting Period.

## VII. Definitions

<i>Meiguan Company</i>	Shenzhen Meiguan Expressway Company Limited
<i>Jihe East Company</i>	Shenzhen Airport-Heao Expressway (Eastern Section) Company Limited
<i>Qinglian Company</i>	Guangdong Qinglian Highway Development Company Limited
<i>Magerk Company</i>	Hubei Magerk Expressway Management Private Limited
<i>Outer Ring Company</i>	Shenzhen Outer Ring Expressway Investment Company Limited
<i>Mei Wah Company</i>	Mei Wah Industrial (Hong Kong) Limited
<i>Coastal Company</i>	Shenzhen Guangshen Coastal Expressway Investment Company Limited
<i>Fameluxe Investment</i>	Fameluxe Investment Company Limited
<i>JEL Company</i>	Jade Emperor Limited
<i>Qinglong Company</i>	Shenzhen Qinglong Expressway Company Limited
<i>Investment Company</i>	Shenzhen Expressway Investment Company Limited
<i>Guishen Company</i>	Guizhou Guishen Investment Development Company Limited
<i>Shenzhen International</i>	Shenzhen International Holdings Limited
<i>XTC Company</i>	新通產實業開發(深圳)有限公司 (Xin Tong Chan Development (Shenzhen) Company Limited)
<i>Guizhou Yuelong</i>	Guizhou Yuelong Investment Company Limited
<i>Guizhou Property</i>	Guizhou Shenzhen Expressway Property Company Limited

<b>Advertising Company</b>	Shenzhen Expressway Advertising Company Limited
<b>United Land Company</b>	Shenzhen International United Land Co., Ltd.
<b>Consulting Company</b>	Shenzhen Expressway Engineering Consulting Company Limited
<b>Guangdong UETC</b>	Guangdong United Electronic Toll Collection Inc.
<b>BT (mode)</b>	Build-Transfer mode, refer to a kind of financing mode for non operating infrastructure construction projects by government using non-governmental funds, is also used to describe the process of project operation that the project be handed over to the owners upon general contracting, financing, construction acceptance by project company, and the owners pay the project total investment plus a reasonable return to investors.
<b>PPP (mode)</b>	Public-Private-Partnership mode, refer to a partnership on the basis of concession agreement for the construction of urban infrastructure projects or the provision of public goods and services between the government and private organizations. PPP mode ultimately makes both parties of the cooperation get more favorable results than those who act alone expected, by signing the contract to define the rights and obligations of both parties, to ensure the smooth completion of cooperation.
<b>Company</b>	Shenzhen Expressway Company Limited
<b>Group</b>	The Company and its consolidated subsidiaries
<b>Year, Reporting Period, Period</b>	The year ended 31 December 2015
<b>Reporting Date</b>	The date on which Annual Report 2015 of the Company is approved by the Board, i.e. 18 March 2016
<b>SSE</b>	The Shanghai Stock Exchange
<b>HKEx</b>	The Stock Exchange of Hong Kong Limited
<b>Listing Rules</b>	The Rules Governing the Listing of Securities on HKEx
<b>CASBE</b>	The Accounting Standards for Business Enterprises (2006) of the PRC and the specific accounting standards as well as relevant provisions issued later

**Note:** For definitions of the relevant highways/projects of the Company, please refer to Company's website at <http://www.sz-expressway.com> under the section of "Company Business".

By Order of the Board  
**Hu Wei**  
Chairman

Shenzhen, PRC, 18 March 2016

*As at the date of this announcement, the directors of the Company are Mr. HU Wei (Executive Director and Chairman of the Board), Mr. WU Ya De (Executive Director and President), Mr. WANG Zeng Jin (Executive Director), Mr. LI Jing Qi (Non-executive Director), Mr. ZHAO Jun Rong (Non-executive Director), Mr. TSE Yat Hong (Non-executive Director), Ms. ZHANG Yang (Non-executive Director), Mr. AU Sing Kun (Independent non-executive Director), Mr. LIN Chu Chang (Independent non-executive Director), Mr. HU Chun Yuan (Independent non-executive Director) and Mr. SHI Xian Liang (Independent non-executive Director).*

*This results preliminary announcement, which has been published on the website of HKEx at <http://www.hkexnews.com.hk>, only gives a summary of the information and particulars contained in the full “Annual Report 2015” of the Company. The “Annual Report 2015” of the Company containing all the information to accompany annual report required under Appendix 16 to the Listing Rules will be subsequently published on the website of HKEx in due course.*

Appendix:

**SHENZHEN EXPRESSWAY COMPANY LIMITED**

**Consolidated Financial Statements (including notes)**

**For the Year ended 31 December 2015**