



**E-Flash Report**

**2016 Annual Results**

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**2016 Annual Results Briefing**

On 20 March 2017, Shenzhen Expressway 2016 Annual Results Briefing was held in Shenzhen and Hong Kong respectively, a total of 84 investors, analysts and reporters attended. At the briefing, Mr. Wu Yade, President, Ms. Gong Taotao, Financial Controller, and Mr. Hu Wei, Chairman, respectively introduced the Company's operation and the financial performance in 2016, and the Company's future development prospects and planning. The management and the participants have had Q&A around the topics such as the progress of toll highway projects and environmental protection projects and future development plan.

(Please go to <http://www.sz-expressway.com/UploadFiles/2017/03/17203231DD7FE6F2.pdf> to read or download the materials for reference.)





## Frequently Asked Questions

### 1. What are the operating objectives of the Company for 2017?

A: The target of total operating revenue set by the Group for 2017 is no less than RMB4.6 billion, and the total of operating costs, management expenses and sales expenses (excluding depreciation and amortization) should be controlled at approximately RMB1.4 billion. In 2017, it is expected that average borrowing scale of the Group (including the advancement from Shenzhen government in relation to compensation for toll adjustment of Nanguang Expressway, Yanpai Expressway and Yanba Expressway (the “Three Projects”)) and financial cost will record a YOY increase.

The main factors as considered include: 1. there will be no material change in the operating environment and conditions; 2. revenue arising from toll highways will remain the primary source of revenue and maintain stable; 3. the businesses, such as entrusted construction, entrusted operation and real estate development, will progress as scheduled in a smooth manner.

### 2. What are the capital expenditure plan and financing strategy of the Company for the coming years?

A: It is expected that the capital expenditure of the Group will amount to approximately RMB6 billion by the end of 2019, including the capital expenditure of RMB4.4 billion incurred by Section A of Outer Ring and RMB1.27 billion incurred by Yichang Project. The Group plans to satisfy such capital needs with its own capital and bank borrowings. According to the Board’s assessment, the financial resources and financing capabilities of the Group are currently sufficient for satisfying the needs of various capital expenditures.

The Company will proactively expand new business mainly in terms of environmental protection for which substantial funds will be needed. The financing methods in the future will mainly consist of debt financing, equity financing and fund financing. Moreover, the Company will make full use of the domestic and overseas financing platforms to achieve its goal of cost control.



3. Whether the government has a plan to adjust the toll mode on other projects subsequent to the toll adjustment of the Three Projects in 2015?

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

In response to regional economic development and transportation demands and based on overall consideration of economic and transportation planning, the Shenzhen government may further promote new transportation organization arrangement and adjustment plan which will involve certain expressways under operation, investment and management of the Group. The Company will actively communicate and negotiate with relevant authorities and formulate reasonable and feasible plans to achieve win-win development.

4. What is the status and subsequent development plan of Meilin Checkpoint Renewal Project?

A: After the implementation of toll-free for part section of Meiguan Expressway since April 2014, the government gradually carried out urban renewal work along the line. As the original owners of the part of land along the line, the Company and Shenzhen International have the opportunity to participate in Meilin Checkpoint Renewal Project to realize the commercial value of corporate resources. Pursuant to the approved of the general meeting, the Company and XTC Company (a shareholder of the Company and a wholly-owned subsidiary of Shenzhen International) established United Land Company to carry out the project and be responsible for related works such as land acquisition, and respectively own 49% and 51% equity interests of United Land Company. United Land Company has obtained the land use right of the land parcels upon full payment of the land premium (including the transfer price of the land use right and other payables) as scheduled.



Pursuant to the land transfer agreements, the Meilin Checkpoint Land Parcels, with an area of approximately 96,000 square metres, which are designated for residential and commercial use, land use rights of which are granted for a term of 70 years (with part of the land use rights for commercial use lands granted for a term of 40 years), and with a permitted total gross floor area of not more than 486,400 square metres (including public ancillary facilities, etc.). The total land premium is RMB3.567 billion. According to current progress of related work, it is expected that the total costs for the land parcels amount to approximately RMB5 billion to RMB5.2 billion, including the land premium of approximately RMB3.567 billion, relevant taxes, relocation compensation for the properties on the land, and preliminary planning costs, etc. Currently, the negotiation on relocation compensation for the operators and tenants of the existing properties has been basically completed and the demolition has been launched at the beginning of 2017.

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. The Company has actively conducted industry policy research, explored the methods for value realization and liquidation of the land. Currently, the Company and Shenzhen International are preparing development proposal which will be considered to introduce the brand developers. The Company will endeavor to commence the construction of the project at the end of the year.

5. **How does the Company develop environmental protection business? What are the development model, income standard and future assets scale?**

A: After years of study, analysis and trial, the Company has clarified the direction of consolidating the core business of expressway while proactively developing the environmental protection industry.

The development of environmental protection industry is in line with the strategic guidance of the Company's strategy on exploration of new industries, including "compliance with the national policy guidance for the industry, fully unleashing the core competitiveness of the Company and the demonstration on scale and reproduction". In addition to great development potentials, the environmental protection industry is capital intensive and featured by local governments as main target customers, competitive access, relative long-term monopolistic operation and relative stable return, and has higher requirements on engineering construction and management and tallies with the resource characteristics and competitive edge of the Company. The environmental protection industry consists of a number of segments. In the future, the Company will place the development focus on the segments including solid waste treatment (including household garbage and industrial solid waste), hazardous waste treatment, integration of environment and sanitation, and environmental water treatment.



The Company is familiar with the concession model of environmental protection industry and has accumulated rich experience. The good cooperative relationship between the Company and local governments is conducive to the acquisition of the projects. The Company has sufficient and stable capital and strong capacity in respect of and in-depth study on the comprehensive management of infrastructural projects. The Company will fully exert these advantages to prioritize the layout in Shenzhen and other regions rich in resources in Guangdong Province by way of cooperation with government in PPP model, cooperation with and acquisition or merger of leading enterprises in the industry, and change from investment to control, and develop nationwide relying on the plan of major city agglomerations in the PRC. The IRR target of environmental protection industry is no lower than the IRR of traditional toll highway business, as well as contribute the profit to the Company for the current period. According to the present plan, the Company will strive to achieve the scale of environmental protection industry of no less than 20% of the Company's total assets by the end of this strategic period.

#### 6. What is the Company's future investment strategy for toll highway projects?

A: In the long term future, toll highway will still be the core business and the profit source of the Group. In respect of investment in and acquisition of toll highway projects, the Company's overall strategy is to proactively study on and reserve high-quality project resources. However, in making decisions on investment, the Company will give full consideration to the IRR of projects and the safety and tolerance of the Company's financial resources. The principles of project investment include the national trunk lines, there is the synergistic effects with existing projects and the IRR is no lower than 8%, etc.

#### 7. What is the Company's dividend payout policy?

A: The Company pays attention on shareholders' return. Although the debts level of the Company and the financing costs in the market were relatively high in recent years, the Company still maintained a dividend payout ratio at around 40% to 50% and paid special dividends for two consecutive years. As the Company has a large capital demand for future development and the funding environment is tightened, the Board recommended payment of cash dividend of RMB.022 (tax included) per share for 2016, amounting to 41.0% of net profit for the year.

In the future, the Company will continue to maintain a reasonable and stable dividend payout policy and fully consider the interests balance between current period and long-term for the Company itself and investors, and determine and decide the specific dividend payout ratio with the consideration of other factors, such as the Company's financial position, capital demands and external borrowing environment.



8. What is the next plan of the Company's share incentive scheme?

A: The Company will resolutely promote the implementation of the long-term share incentive scheme for employees to attract and retain excellent talents and effectively align the interests of shareholders, the Company and employees to let all parties pay attention to the long-term development of the Company and promote implementation of strategy.

The new incentive proposal of the Company has gained the support of the Shenzhen SASAC and the major shareholder. The Company is striving to launch the new incentive scheme in this year and the form includes but not limited to employee stock ownership plan and profit share, etc.

**About Shenzhen Expressway**

*Shenzhen Expressway was established on 30 December 1996. In March 1997, the Company issued foreign capital shares (H Shares) which were subsequently listed on The Stock Exchange of Hong Kong Limited on 12 March 1997. In December 2001, the Company issued Renminbi-denominated ordinary shares (A Shares) which were subsequently listed on the Shanghai Stock Exchange on 25 December 2001. The Company is mainly engaged in the investment, construction, operation and management of toll highways.*

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