



E-Flash Report

2018 Annual Results

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2018 Annual Results Briefing

On 25 March 2019, the Company held the 2018 Annual Results Briefing in Shenzhen and Hong Kong respectively, a total of 89 investors, analysts and reporters attended. Mr. HU Wei, Chairman, Mr. LIAO Xiangwen, President, Ms. ZHAO Guiping, Financial Controller, Mr. LUO Kun, Company Secretary, and Ms. ZHENG Zheng, IR Manager attended the meetings and introduced the Company's financial performance and operation in 2018, as well as the Company's future development planning. Thereafter, there was a good communication between the Management and the participants around the topics, such as the operating environment of the toll road industry, the progress of project operation and construction, and the development plan of the dual core business.

(Please go to <http://www.sz-expressway.com/uploadfiles/2019/03/20190323010256803.pdf> to read or download the materials for reference.)





Speech of Chairman

Guests from investment and media sector,

Welcome!

I am pleased to announce that Shenzhen Expressway has achieved an excellent results in 2018! The Board recommended payment of a final dividend of RMB0.71 per share in cash for 2018, including a general dividend of RMB0.36 per share and a special dividend of RMB0.35 per share. Even more gratifying is that Shenzhen Expressway has entered a stage of stable and sustainable development after several years of hard work and practice. The Company's toll road assets have been effectively supplemented and

the mileage of toll road has continued to grow. The concession period the Company's existing toll roads has been extended from an average of 10 years to nearly 20 years. In the future, with the completion of the project, such as the reconstruction and expansion of Jihe Expressway, Coastal Phase II and Shenshan Second Expressway, the concession period of the Company's toll roads will be greatly exceed 20 years. The results of the strategic transformation of Shenzhen Expressway are also obvious to all. By successively acquiring the equity interests of Derun Environment and Water Planning Company, the Company has not only entered the field of general-environmental protection field with high starting point and achieved economic benefits, but also established cooperation with brand companies such as Suez Group in France and Everbright Environment to lay the foundation for the Group's deeper follow-up and focus on the field of environmental protection. The Company's assets structure has been optimized, the distribution of revenues and profits has also been gratifying changes, and these are sustainable in the future.

The market believes that the contradiction between the limitation of expressway assets and the sustainable operation of enterprises has always caused the difficult problems for the market to re-invest in expressway enterprises. The difficulty of reinvestment is one of the important factors of suppressing the valuation of the toll road industry. Through years of hard work and practice, Shenzhen Expressway has broken through the predicament of sustainable development and reinvestment and has built a possibility of the good reinvestment. The Company demonstrates to the market its value orientation consistent with the interests of investors and its lower governance risk. Last year, Guanghua-Rotman Research Center and "New Fortune" launched the selection of the "Best Listed Company" in more than 3,000 A-share listed companies. Shenzhen Expressway has the honour to rank 14th in the top 50 list. It is one of the two listed companies selected by Shenzhen State-owned Assets System and the only one listed company in the road industry. The evaluation of the Company by the organizing committee is: Shenzhen Expressway has been deeply cultivating the industrial field for many years. It has a good operating position and a long-term profitability. It has brought good returns to investors through continuous growth. It has experienced various storms and accumulated valuable reputation in the long-term capital market experience. It has formed the





sustainable development, stable growth and excellent cash dividends that the capital market advocates. This award reflects the high recognition that the capital market has long respected the culture of integrity, pursued good corporate governance, focused on the company's high transparency, and strived for objective and sufficient information disclosure. These soft powers are conducive to the company's continued popularity with analysts, institutional investors, and partners, which in turn translates into the company's hard power in the market. Shenzhen Expressway is very grateful for the recognition from investors and the capital market, which is the goal we continue to pursue and achieve.

Shenzhen Expressway will continue along the path of innovation and development, and continue to return to shareholders of the Company. The operating goal of the Company in 2019 is to achieve a total revenue of not less than RMB5.8 billion. We still have the confidence to achieve this goal in the case of a gap in revenue as a result of the buy-back of the Three Project by the government. Thank you for your continued support and attention!

Frequently Asked Questions

1. Why does the Company enter the wind power generation industry? Is that consistent with the Company' strategy? Why did the Company invest in Nanjing Wind Power?

A: The wind power generation industry is classified under the field of environmental protection and new energy, offering energy efficient, environmentally friendly, clean and renewable features, strongly supported by the country. The wind power generation industry mainly covers sub-sectors including the operation and maintenance of wind power equipment and wind farms. In particular, the wind power investment operation and toll road operation share similar business model as they are both operated with concession and have 20 years of stable operation period with robust cash flows. Besides, the management of wind farms is much simpler than expressway operation and the yield rate of wind farm investment also meets the investment return requirement of the Company.

According to the "2015-2019 Development Strategies" which are being executed by the Company, the environmental protection industry is one of the key development directions of new industries determined by Shenzhen Expressway, while the wind power generation industry is the key strategic area of the environmental protection industry. Pursuant to the requirements of the scope of industry of China and the guidance of Shenzhen SASAC, Shenzhen Expressway can regard the wind power industry as the core environmental protection business and invest in enterprises and projects related to such area. The transformation of the Company's wind power business is supported and promoted by Shenzhen SASAC and therefore is in line with the established strategy of the Company.

After the acquisition of certain equity interest of Derun Environment and Water Planning Company in 2017, the Company has officially entered the field of environmental protection. Over the past two years, the Company has never ceased its effort in the study and research on the sub-sectors of the environmental protection industry, exploring a number of projects in various areas. During the course of its study, it discovered that:



(1) As a clean energy, wind power is a sub-sector of the Group's environmental protection industry supported by the national policy and with promising prospects in the market. The investment in Nanjing Wind Power is in line with the Company's development strategy and will play an important role in driving the development of the wind farm operation business, which has similar business model as the toll road business.

(2) Nanjing Wind Power is a private high-technology enterprise engaged in power generation with renewable wind power, as well as the provider of wind power generation system solutions for wind farms. It has two core advantages. First, Nanjing Wind Power has a capable team with extensive experience in wind farm development, construction, operation and management. Having previously worked for leading wind power enterprises such as NGC and Envision, the team members boast proven experience and expertise; second, it has obtained independent property rights for its core technology and showed strong technological capability in areas of super-low speed wind turbine, particular site selection and calculation development, therefore it has good market prospects.

(3) Through the acquisition of Nanjing Wind Power, the Company will obtain advantages covering the entire industrial chain such as equipment, technology, operation and maintenance, and wind farm resources, which will lay a foundation for the Group to rapidly enter the wind power generation industry and seek further development. Nanjing Wind Power will help the Company enter the wind power generation industry and pursue development in wind farm operation in the future.

(4) Nanjing Wing Power is not really large in scale and its size matches up with that of Shenzhen Expressway at this stage of development.

(5) The ROE of Nanjing Wind Power was 23.44% in 2017. The average ROE of listed companies engaged in the wind turbine manufacturing industry is 5.81%, while that of listed companies engaged in the wind power operation industry is 7%. Therefore, the acquisition was made at a reasonable price and will produce positive impacts on the overall valuation of the Company in the future.

2. What are the Company's development strategy and thoughts on the toll road business and general environmental protection business?

A: In recent years, the expressway industry has faced many challenges, including limited operation period, rising costs, mounting pressures from the public and other issues. Under the impacts of the traditional investment and financing model, the toll road industry has seen a declining investment yield rate and it's difficult for the industry to guarantee investment returns and identify quality investment projects. The industry has therefore run into a growth bottleneck and turning point. For the Company, what is even worse is that many of its high-quality projects have been repurchased by the government, which has drastically decreased the size of its main business. Hence, it's unavoidable for the Company to make clear of its business growth direction and seek business upgrade and transformation. According to its research on new industry and conclusion on actual operation over recent years, the Company has regarded a "Construction and Operation Service Provider of Urban and Transport Infrastructure" as its core position in transformation. While



consolidating the toll road business, it also focuses on expanding its footprints into the general environmental protection, transport infrastructure and industrial chain-related financial service industries. Among these industries, the environmental protection sector dovetails with the Company's resources characteristics and competitive advantages and therefore is the focus of the Company's business transformation and development. The Company will continue to adopt a cautious, prudent yet proactive approach for the development of the toll road business and general environmental protection business. Subjects of mergers and acquisitions should match up with the Company's development scale, financial security and affordability, and industrial and policy environments. In the short to medium term, the asset and revenue of the toll road business will still account for the lion's share of the total asset and revenue of the Company. In the long run, as the scale of the environmental business is similar to that of the toll road business, the former will become the cornerstone for the development of Shenzhen Expressway.

With respect to the expressway business, the Company will actively promote the research and implementation of smart transport to enhance traffic efficiency and ensure stable growth of toll revenue. Leveraging the reconstruction and extension of Outer Ring and Jihe Expressway and other major projects, it will also strive to build quality projects, give full play to professional edges, and maintain consistent construction advantage. By maintaining good cooperation with the government, the Company will orchestrate business and operation models and actively participate in the implementation of the Shenzhen Transport Network Strategy and Shenzhen-Shanwei Cooperation Zone Transport Network Strategy.

For the general environmental protection business, the Company will step up its expansion and establish strategic cooperation with the existing partners and industrial leaders. With the resources from Derun Environment, Shenzhen Water Planning Company, Suez and other partners, it will press ahead with the development of the sewage treatment, solid waste treatment and hazardous waste treatment businesses. Besides, the Nanjing Wind Power project will offer the Company advantages covering the entire industrial chain such as equipment, technology, operation and maintenance, and wind farm resources, laying the groundwork for the Group to rapidly enter the wind power generation industry and seek further development. In the future, focusing on holding projects, the Company will keep a close eye on appropriate sub-sectors to enhance the business scale and capacity and drive its transformation and development.

Shenzhen Expressway will continue to promote innovation and capitalize on the material historical opportunity arising from the transport infrastructure and ecological civilization development of the country to make the expressway and environmental protection businesses stronger and bigger.

3. What is the issuance scale and progress of the Company's A-share convertible bonds?

A: The total amount of A-share convertible bonds to be issued by the Company is not more than RMB2.2 billion (including RMB2.2 billion). On 13 April 2018, the China Securities Regulatory



Commission accepted the Company's application for issuing A-share convertible bonds; on 10 August 2018, the Company held the shareholders' general meeting for deliberation of the Proposal on Self-inspection Report and Relevant Commitment Letter of Real Estate Business for the Company's Public Offering of A-share Convertible Corporate Bonds. The Company has submitted the self-inspection report and relevant commitment letter to the China Securities Regulatory Commission, and reconvened the shareholders' general meeting on 4 March 2019 to review and approve the Proposal on Extending the Validity of the Resolution on the Company's Public Offering of A-share Convertible Corporate Bonds and the Validity of the Authorization of the Board of Directors. The approval process has slowed down due to the impact of macro-control policies last year and is currently pending approval for issuance. The Company will seize appropriate opportunity to issue the bonds within 6 months after obtaining the approval.

4. **What is the progress of the reconstruction and expansion of Jihe Expressway? What is the construction plan and what is the expected impact on traffic flow during the construction period?**

A: The current traffic volume of Jihe Expressway is saturated. In order to ensure road safety, improve traffic efficiency, enhance project profitability, and form a perfect road network effect with the Outer Ring Expressway and the Shenzhen-Zhongshan Bridge, the Company plans to reconstruct and expand the Jihe Express. The Company has strengthened the coordination with the Shenzhen Municipal Government, and is currently carrying out the preparatory work for the project, including the feasibility plan and preliminary design, striving to commence construction at the end of 2020. The project's construction period is about four years, which is expected to be open to traffic in 2024 together with the Shenzhen-Zhongshan Bridge currently under construction. According to the current plan, the reconstruction and expansion of Jihe Expressway will be carried out according to the two-way eight-lane, three-dimensional and double-layer structure. The Company is discussing with the relevant departments of the Shenzhen government, and will draw up investment and financing programs in line with the Company's project IRR with reference to the PPP model of the Outer Ring Project and in accordance with the principle of marketization. The Company will apply for an extension of the toll charging period in accordance with the principle of reasonable return.

The construction of the reconstruction and expansion project of Jihe Expressway will not be fully enclosed, which will not have much impact on traffic flow and toll revenue. The Company will rationally arrange the construction plans and traffic organization plans, and improve construction efficiency and safety management efficiency to minimize the impact on traffic flow. In addition, the Company will also reasonably arrange construction progress and coordinate with the timing of opening for the traffic of the Outer Ring Expressway to divert the current traffic flow to the Outer Ring Expressway, so that the overall traffic flow of the east-west passage will not be affected.

5. **What are the Company's business objectives in 2019 and the growth of toll revenue?**

A: Based on the reasonable analysis and expectation on our operating environment and operating conditions, the Group has set a total revenue target for 2019 of not less than RMB5,809 million, with the total of operating costs, management expenses and selling expenses (excluding depreciation and amortization) of approximately RMB2,236 million. In 2019, it is expected that the average borrowing scale and the financial cost of the Group will increase on a YOY basis.



As Nanguang Expressway, Yanpai Expressway and Yanba Expressway (the "Three Projects") were repurchased by the government, the Group's toll revenue from the Three Projects will be reduced by more than RMB700 million in 2019; for the tollway projects with long service years, such as the Jihe Expressway, Meiguan Expressway and Qinglian Expressway, the natural growth rate will slow down in the future, and it is expected that the toll revenue will maintain single-digit growth; projects with short service years such as the Coastal Project are expected to maintain double-digit growth due to the rapid growth rate and the continuous improvement of the surrounding road network.

In addition, the Outer Ring Project is scheduled to be completed in 2020, which will contribute to the Company's toll revenue in the future. According to the Company's business development plan, Jihe Expressway will be expanded. The reconstruction and expansion will not only extend the concession, but also greatly enhance the capacity and promote the growth of traffic flow; the Company will also acquire mature and high-quality tollway projects that are, in principle, located along the national main trunk lines with synergistic effects with existing projects, and an IRR of not less than 8%. Shenzhen Expressway has formed the capacity and foundation for sustainable development in tollway business.

6. [What is the return on investment of Derun Environment in 2018?](#)

A: In 2018, Derun Environment contributed investment income of about RMB160 million, lower than that of the previous year, mainly due to the fact that in 2018, Chongqing Water, in which Derun Environment holds 50% shares, set aside an impairment of about RMB300 million in 2018, resulting in a decrease in the return on investment of Derun Environment. After deducting the one-off impact, the operating performance of Derun Environment was in line with the Company's expectation.

7. [What is the progress of the Company's land development project and development strategy?](#)

A: At present, the Company has two land development projects: Guilong Project and Meilin Checkpoint Renewal Project.

Since 2012, the Group has auctioned a total of 2,890 mu of land for the project in Longli, including 2,655 mu for the Guilong Project and 235 mu for the Duohua Bridge Project. About 800 mu of land in the Guilong Project has been sold and transferred, and the funds recovered totalled about RMB330 million. A transfer agreement has been signed for another 810 mu of land, and it is expected that the transfer will be completed in 2019 and the revenue will be recognized. About 1,045 mu of land in the Guilong Project is independently developed by the Group. The development of 300 mu in Phase I has been completed, and about 316 villas have been basically delivered, with a recognized revenue of RMB679 million; Phase II occupies an area of 389 mu, and 238 villas were released during Stage I. Among them, 237 villas have been sold and payments have been collected by the end of 2018, which were delivered at the end of 2018; Stage II of Phase II of the project was mainly for commercial supporting properties, in which 71 commercial properties were planned to be released. During the reporting period, 39 commercial properties have been sold and payments have been collected, which are expected to be completed and delivered in the first half of 2019; Phase III covers approximately 229 mu, and 271 villas are planned to be released in the first stage the project, which were open for



sale in July 2018. Among them, 105 villas were sold at the end of 2018 with collected payment, and are expected to be completed and delivered by the end of 2020. It is expected that the subsequent selling price will increase year on year, the cost will decline, and the gross margin will further increase. In the future, depending on the overall market situation and development opportunities, the Company will timely realize the market value of the land held by means of market transfer, cooperation or independent development.

The Meilin Checkpoint Renewal Project is divided into three phases including "Hefengxuan, Heyaxuan and Hesongxuan" for development, which will constitute a complex of approximately 486,400 square meters, covering residential, office, apartment and commercial buildings. Phase I "Hefengxuan" covers a land area of about 117,000 square meters, including 75,000 square meters of saleable houses, which were officially open for sale on December 15. The current selling rate is close to 50%. The project site is in a superior location. The land development projects that the Company is currently involved in are all related to tollway. Participating in these projects is conducive to realizing the value of the Company's existing resources.

8. What is the impact of capital injection into Coastal Company on the Company?

A: According to the actual situation of Coastal Company, the Company will inject capital into Coastal Company in one or several transactions in cash, with the total amount of capital injection of not more than RMB4.1 billion, which will be used to improve the financial status of Coastal Company, enhance its financial strength and improve its credit standing. The capital injection into Coastal Company will ultimately reduce the Group's consolidated financial costs and enhance the Group's overall profitability, which is in line with the overall interests of the Company and its shareholders. Coastal Company is a wholly-owned subsidiary of the Company before and after the capital injection, and the its registered capital remains unchanged.

9. What is the impact of the planning of the Guangdong-Hong Kong-Macao Greater Bay Area on the Company?

A: 2019 is the first year of the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, and the interconnectivity of infrastructure is the primary task of construction of the Area. The development plan of the Guangdong-Hong Kong-Macao Greater Bay Area is conducive to promoting the construction of a multi-level integrated public transportation network in the Greater Bay Area; the requirements for efficiency improvement will gradually deepen the research and implementation of intelligent transportation; it is foreseeable that in the future, whether it is at the national or provincial level, the transportation investment in the Greater Bay Area will not be a small amount, which, in the long run, will be a long-term favorable policy for the expressway industry.

Based on the transportation construction, the Company will participate in the construction of the Guangdong-Hong Kong-Macao Greater Bay Area, build a large-scale traffic pattern with interconnectivity that comprehensively connects the metropolitan areas in the Guangdong-Hong Kong-Macao Greater Bay Area, and actively participate in innovative major projects such as underground pipe corridors. In addition, the promotion and implementation of the planning of the



Guangdong-Hong Kong-Macao Greater Bay Area will inevitably lead to increased population density, accelerated urbanization and population overflow, which will benefit the traffic volume of the Company's existing highway sections and the expected return of real estate projects; meanwhile, the accelerated construction of infrastructure in the Greater Bay Area will certainly bring opportunities in the acceleration and integration of the environmental protection industry, which will facilitate the Company to obtain environmental protection projects in the Greater Bay Area and form regional advantages. The Company will continue to promote the strategic layout of the environmental protection industry, accumulate environmental management technology and talent reserve, respond to the environmental protection planning of the Guangdong-Hong Kong-Macao Greater Bay Area, facilitate the building of a quality living environment in the Guangdong-Hong Kong-Macao Greater Bay Area, contribute to the construction of world-class metropolitan areas, and generate better returns for its shareholders.

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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