



E-Flash Report

2016 Interim Results

GUIDANCE

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2016 Interim Results Briefing

On 22 August 2016, the Company held the 2016 Interim Results Briefing in Shenzhen and Hong Kong respectively, a total of 108 investors, analysts and reporters attended. At the briefing, Ms. Gong Taotao, Financial Controller, and Mr. Hu Wei, Chairman, respectively introduced the operational and financial performance in the first half of 2016, the projects expansion as well as the Company's future development planning. Thereafter, there was a good communication between the Company management and the participants around the topics such as progress of projects and future development plan and strategy.

(Please go to <http://www.sz-expressway.com/UploadFiles/2016/08/2217582526237CFD.pdf> to read or download the materials for reference.)





Frequently Asked Questions

1. How is the progress of Meilin Checkpoint Renewal Project? What is the subsequent development plan?

A: After the implementation of toll-free for part section of Meiguan Expressway since April 2014, the government gradually carries 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 the Meilin Checkpoint Renewal Project and to realize the business value of corporate resources. Pursuant to the approval of the general meeting of the Company, the Company and XTC Company (a shareholder of the Company, a wholly-owned subsidiary of Shenzhen International) jointly established United Land Company to carry out the project and be responsible for related works such as land acquisition. The Company and XTC Company own 49% and 51% equity interests of United Land Company respectively. United Land Company paid up the total land premium (including the transfer price of land use right and other payables) and obtained the land use right of the land parcels.

According to the land transfer agreements, the Meilin Checkpoint Land Parcels are a site of approximately 96,000 square meters 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 meters (including public ancillary facilities, etc.). The total Land Premium is RMB3.567 billion. According to current progress of related work, it is estimated that the total land cost of the project land parcel would be RMB5 billion to RMB5.2 billion, including the total land premium of approximately RMB3.567 billion, relocation compensation for the properties on the land, preliminary planning costs, and relevant tax. Currently, the negotiation between United Land Company and the operators and tenants of the existing properties on the land is nearing completion.

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 is actively conducting industry policy research, exploring the methods for value realization and liquidation of the land. Given the strategic positioning and commercial interests of both shareholders of Project Company can be satisfied, the various possible ways, such as transfer of the equity interest of the Project Company or participate in further development by the Project Company, will be considered afterward to realize the value of the project. The emphasis in work of this year is to promote the introduction of cooperation parties with Shenzhen International.



2. How is the progress and the subsequent development plan of Guilong Land Project?

A: Since 2011, the Company has developed Guilong Project through the platform of the subsidiary Investment Company and Guishen Company. We have participated in the regional road construction and development by “BT Mode”. Meanwhile, through actively being engaged in the land tenders within the development area of Guilong Project, the Company reduced the risk of BT receiving account and achieved expected or even better profit return. At present, the Group has successfully won the bids for parcels of land with an area of approximately 2,490 mu (approximately 1.66 million square meters) with a total consideration of approximately RMB837 million.

Phase I Group A of Guilong Development Project (also known as “Interlaken Town Project”) (approximately 110 mu, equivalent to 70,000 square meters) commenced official sales in August 2015. Guishen Company promoted the project through various means and organized a series of marketing events and actively conducted customer visits and sales events, which were well-responded by the market. Cash recovery was in line with expectations. At present, more than 120 sets of villas had been basically sold out. It is expected to be delivered and put into use in second half of 2016, while recognizing revenue and cost. Phase I Group B (approximately 129 mu, equivalent to 86,000 square meters) commenced official sales at the end of May 2016 with good sales at present and was expected to be completed within 2017.

Guizhou Property entered into two transfer agreements with Shenzhen International Logistics Development Co., Ltd. (“SZ International Logistics”) to transfer the entire equity in and creditors’ rights of Guizhou Pengbo (which will hold approximately 322.9 mu of logistics land lots) and 51% equity interest in Guizhou Hengtongli (which will hold approximately 143.9 mu of commercial and residential land lots) to SZ International Logistics, at considerations of approximately RMB95 million and RMB44 million respectively following the regrouping. By the end of the Reporting Period, SZ International Logistics has paid half of the transfer amounts to Guizhou Property, and relevant equity transfer procedures were also completed.

In the future, Guishen Company will, through timely market transfer, cooperative development or self-development regarding the overall market conditions and development opportunities, realize the market value of the lands it holds and the Group’s investment gain as soon as possible and prevent the contractual and market risks in relation to the lands in an effective way.



3. Will the government adjust the toll mode on other projects just as same as the toll adjustment on Nanguan Expressway, Yanpai Expressway and Yanba Expressway (the “Three Projects”)?

A: Based on the overall demands for economic development and transportation planning, the Shenzhen government adjusted the toll of the Three Projects in two phases and made a compensation to the Company which is reasonable in the prevailing market. The Adjustment meet the objective needs of Shenzhen’s economic development and urbanization to a certain stage, which will lower the transportation and logistic 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.

Along with the regional economic development and demand for transportation, and based on the overall consideration of the planning of the economy and transportation, the Shenzhen Government might further push forward new traffic arrangements and adjustment plans, which involves expressways operated, invested or managed by the Group. The Company would actively negotiate and communicate with relevant government departments to formulate a reasonable and feasible plan for mutual development.

4. What is the Company’s dividend policy?

A: The Company pays attention on shareholders’ return. Although the debts level of the Company during the reporting period and the financing cost in the market are relatively high, the Company still keeps a dividend pay-out ratio at around 40% to 50%. The Board recommended payment of a final cash dividend of RMB0.34 per share for 2015, amounting to 47.8% of net profit for the year.

In the future, the Company will continue to keep a reasonable and stable dividend policy, to fully consider the interests balance between current period and long-term for the Company itself and investors, and make the specific dividend payout ratio with the consideration of other factors, such as the Company’s financial situation, capital needs and external loaning environment.



5. How is the current operational performance and the future trend of Qinglian Expressway?

A: In the first half of 2016, the average daily mixed traffic volume and average daily toll revenue of Qinglian Expressway was approximately 36,000 vehicles and RMB1.89 million, respectively, representing an increase of 7.9% and 4.5% YOY respectively. The diversion raised from the neighbouring roads on Qinglian Expressway still exists. With the active promotion and implementation of multi-level marketing strategy conducted by Qinglian Company and the growth of overall regional traffic volume, the diversion has stabilized.

The reconstruction and expansion work of Guangqing Expressway, which connects to the southern end of Qinglian Expressway, is currently under progress. According to its announced plans, the whole works will be completed by the end of 2016. The construction of Qingxi Bridge and Connection Line Project, which is on the south of Guangqing Expressway and on the north of Qinglian Expressway, started by the end of 2014 and was expected to be completed by the end of 2017. According to the information announced, the construction of the link between Guangqing Expressway and Qinglian Expressway commenced in the second half 2015 and expected to be completed in 2017. The continuous improvement of road network and facilities can facilitate further economic and social development along the highway, as well as people's selections and demand to use highway transportation means, drive the increase of the overall traffic volume level among the road network. Meanwhile, it can also bring changes to the traffic volume distribution of the road network, resulting positive or negative impacts on the operational performance of the specific project on a certain stage. Upon the successive completion of those 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 optimize the competitiveness of Qinglian Expressway and enhance its operational performance. The Company will closely follow up the changes of neighboring road network and constantly conduct monitoring analysis on traffic flow. The Company will also take measures to actively attract traffic flow and keep improving operational performance. These measures include the improvement of traffic condition and service quality, promotion of the opening of the project and service advantage, commencement of special marketing work and optimization of road guidance.



6. What is the development strategy of the Company for the future and how is the environmental protection industry progressing?

A: In the long term future, toll highway will still be the core business and profit source of the Group. However, economic development and changes in policies will bring constant increase in costs to investment and construction, maintenance and repair, normal operation and other aspects of the toll highway business and eliminate projects that will still have commercial value under traditional operation models. In light of this, the Group has set its new round of development strategies as to apply the market-orientation, innovative drivers and opportunities emerging in change of situation to consolidating and improving the toll highway business and actively exploring and setting new directions for it in order to secure sustainable development.

Amidst this round of strategies, the Company raised a new topic for the development of new industries. After the promotion of a series of work, the Group has set the “construction and operation service provider of urban and transport infrastructure” as its main business direction. The Group will focus on the environmental protection industry as its main direction of new industries, such as environmental water treatment and solid waste treatment, and, working with industry leaders, moderately expand into the financial industry so as to realize the combination between industry and finance. At present, the Company has commenced preparations for the environmental protection such as research, devising of business models and negotiation, and certain projects are expected to be initiated within this year.

7. What is the purpose of issuing USD bonds by the Company?

A: The Company issued 5-year foreign bonds of USD300 million at a fixed coupon rate of 2.875% in early July to fund construction and optimize the capital structure of the Company. This is a move based on strategic considerations. The Company, listed on both the A share and H share markets, has access to capital markets in China as well as overseas, and has credit ratings of the investment grade given by international agencies. This is a hard-won advantage of the Company, which requires constant endeavors to maintain. The Company has made arrangements for locking in the exchange rate in order to keep its financial position stable.



8. How is the industry environment and is there any new development about the Toll Highway Management Ordinance?

A: During the first half of the year, there were no material changes in policies with regard to the toll highway industry, but more stringent and standardizing national requirements affecting the transportation sector, to which the toll highway industry belonged, were launched. Documents issued by the Ministry of Transport and/or relevant national authorities including the Notice of Transport Standardization under 13th Five-year Strategic Plan (「交通運輸標準化“十三五”發展規劃的通知」), the Notice of Transport Informatization under 13th Five-year Strategic Plan (「交通運輸信息化“十三五”發展規劃的通知」), the Outline of Road Maintenance, Management and Development Informatization under 13th Five-year Strategic Plan (「“十三五”公路養護管理發展綱要」) and Directions on Effective Joining of Main Roads and City Roads (「關於加強幹線公路與城市道路有效銜接的指導意見」) set out higher and more specific requirements for the industry on safe construction, standardized operation, energy-saving and environmental protection, informatized governance, plan optimization and other areas. This will be conducive to further improvement of the Company in respect of procedures for construction, management and maintenance and services of toll highway, and therefore enable the Company to go leaps and bounds ahead amidst the intense competition in the industry.

In late July 2015, Ministry of Transport published the “Amendments to Toll Highway Management Ordinance” (“Amendments”) to solicit public opinions. Based on the principle of “Road Users Pay” and criteria of both fairness and efficiency, the Amendments propose the general plan of building two highway systems – the free road system as the primary and the toll road system as the secondary – of which certain amendments and improvements have been made regarding financing models, source of funds and operation management of toll highways. The purposes of these Amendments are to standardize the management, motivate social capitals to sustainably invest in highway construction and management, and highlight reasonable return on operation of toll roads. This will strengthen the standardized management of the industry and be beneficial to its long-term sound development. A submission had been made to the State Council at the end of 2015 and the Amendments are not yet effective. The Company engages in relevant studies and closely monitors any potential changes and latest development of the new ordinance.



9. What is the main reason that the share incentive scheme of the Company was not approved by H shareholders? What will be the next step?

A: The restricted A share incentive scheme (the “Scheme”) is on hold as relevant resolutions have not been passed at the H shareholders’ class meeting of the Company, although passed at its second extraordinary general meeting and the A shareholders’ class meeting held on 24 June 2016. Based on subsequent enquiries, it is gathered that misunderstanding by foreign investors as to policies of China and the Scheme may have led to such an outcome. The Company is of the opinion that the suspension of matters contemplated under such resolutions does not have any impact on the normal operation and management of the Company, nor on its established development strategies and direction. The Company has set out on better communication with investors basing on compliance and the market-orientation.

The Company is of the opinion that a share incentive plan can further develop and improve the long-term incentive mechanism of the Company so as to attract and retain competent employees and bring out the initiative of senior management, middle management and core managerial and technical functions of the Company. This will effectively align the interests of shareholders, the Company and individual operators such that their attention will converge to the execution of strategies of the Company for its long-term development. Share incentives play a constructive role in the transformation of state-owned companies. The implementation of a share incentive scheme by the Company, as the first toll highway company approved by the SASAC to do so, would be momentous for the Company itself as well as the whole industry, and therefore it will forge ahead with the Scheme. Increasing communication with foreign investors, it will further improve and amend the Scheme and convene another extraordinary meeting and further class meetings for the consideration of relevant resolutions.



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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