



E-Flash Report

2021 Interim Results

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2021 Interim Results Briefing

On 26 August 2021, the Company held the 2021 interim result online briefing and the small and medium investors online meeting through Roadshow China and Panorama · Global Roadshow respectively. The morning briefing session was held in the form of live video and teleconference and more than 1,700 views across the web during the live broadcast. At the briefing, the Management of the Company and the participants had full communication on the Company's operating performance in the first half of 2021, business progress in each sector, investment and financing plans, etc. The afternoon briefing session was held in text format with mainly small and medium investors. Total of 18 investors asked questions varying from the project operating status, the existing project progress to the future development planning. The content of the above briefings can be accessed through RoadshowChina platform (<https://webcast.roadshowchina.cn/cmeet/WWNKYTIKaG1VWi9Tb2VOaU9UNV4UT09>) (Chinese only) and Panorama · Global Roadshow platform (<https://rs.p5w.net/html/128713.shtml>) (Chinese only). The Company's presentation material is available at: <https://www.sz-expressway.com/uploadfiles/2021/08/20210831140526449.pdf>





Dear Investors:

In the first half of 2021, although the Company's operations were under pressure in many aspects., it still satisfactorily completed the various operation and management objectives. The overall operation situation has been steadily improving, laying a good foundation for the second half of the year to make breakthroughs and achieve the full-year performance goals. It has taken another small step forward the strategic goal of the 14th Five-Year Plan. We are pleased to find that the development of Shenzhen Expressway has become more reasonable, and the "dual core businesses" model has been further consolidated.

The year 2021 is the beginning of the Company's 14th Five-Year Strategic Plan and also a key stage for the Company to promote upgrading and focus on the development of the dual core businesses. At the beginning of the year, the Company set a target of annual revenue exceeding RMB10 billion, which is the stage reflection of the Company's development achievements, a reflection of the sense of responsibility to repay shareholders, and a reflection of the Management's confidence in the dual core businesses strategy and growth prospects. In the second half of the year, the Company will focus on the annual operation target and "grasp the key points, break the difficult points, make the work highlight". In an era where opportunities and challenges coexist and hope and difficulties coexist, the Company will face challenges, be brave to take responsibility, overcome difficulties, and move forward courageously to make a good start for the new phase of the strategy.

Chairman: HU Wei



Frequently Asked Questions

1. [What is the impact of differentiated toll collection on the Company? When will the details be available?](#)

A: The MOT and the NDRC jointly issued the “Implementation Plan for Comprehensive Promotion of Toll Collection for Highways” in June 2021, which requires differentiated toll collection based on vehicle types, road sections, time sessions, entries and exits, directions and payment methods and requires the provinces to formulate implementation rules in the second half of the year based on the implementation situation. Before that, the national expressways have implemented differentiated toll collection policies such as a 5% discount on ETC vehicles, and the provinces in recent years implemented different degrees of preferential toll rates for specific truck models, such as the implementation of 15% discount for trucks using ETC and legally loaded on some road sections in Guangdong Province. The implementation of the differentiated toll collection will result in a decrease in toll collection from single vehicles for toll highway companies, but the overall road network traffic will increase. From the current situation, the differentiated toll collection policy has no further impact on the road sections of Shenzhen Expressway, the Company will follow up the progress of related matters and make a timely judgment.

2. [Please explain the reasonableness of the consideration for the acquisition of Bay Area Development.](#)

A: The estimated total consideration for the Company's acquisition is no more than HKD10,479 million and the cost of acquiring Bay Area Development shares is no more than HKD4.67 per share.

1) The transaction price of HKD4.67 per share is within the market approach valuation range of HKD4.42 per share to HKD4.71 per share after dividend reduction, and the pricing is reasonable. China Merchants Securities, the financial adviser in the transaction, used the comparable company method to estimate the market value of 71.83% equity interests in the listed company - Bay Area Development as at 15 March 2021 (using the reminder announcement date of the transaction as the base date), and determined the valuation range is from HKD4.52 per share to HKD4.82 per share. After reducing the dividends paid in April 2021, the valuation range of the market value of the price per share of Bay Area Development is between HKD4.42 per share and HKD4.71 per share. (Please refer to the valuation report disclosed by the Company on 10 August 2021)



2) The transaction price is not higher than the estimated value of HKD4.67 per share under the asset-based approach of Bay Area Development after the dividend reduction, which is reasonable. Pengxin Appraisal uses the asset-based approach to assess the value of the target company. The valuation of Bay Area Development based on the exchange rate on the assessment base date is HKD4.78 per share, and the valuation of Bay Area Development after adjusting the dividend payment in April 2021 is HKD4.67 per share. (Please refer to the valuation report disclosed by the Company on 10 August 2021)

3) The transfer price of this project is in compliance with the provisions of Measures for the Supervision and Administration of State-owned Shares of Listed Companies.

4) The transaction price represents a premium of approximately 14.4% over the carrying value, which is mainly due to the amortization of the fair value appreciation on the acquisition of Bay Area Development during the holding period of the seller reducing the carrying value, but such amortization cost did not involve cash outflow and did not affect the valuation. Therefore, the price is essentially a cost recovery of the seller's investment. Based on the above analysis, the transaction price has reasonableness.

3. **What is the financing cost of acquiring Bay Area Development? What is the impact of Guangshen reconstruction and expansion project on the future costs of the Company?**

A: The consideration of this transaction will be paid in cash. In first step, an offshore short-term loan will be adopted, and the interest rate of short-term loans obtained is below 2.5% per annum at present. In the next step, the Company will optimize the capital structure of the overseas companies, increase the proportion of capital and the proportion of medium and long term debt, control the medium and long term funding costs at a lower level, and reduce the Group's overall tax level of the Group through methods such as overseas capital injection, overseas borrowing and overseas bond issuance by the headquarters.

The investment and financing funds of Guangshen reconstruction and expansion project are usually about 25%~35% funds contributed by shareholders, and the remaining funds will be financed by long-term debt financing. The financial costs during the construction period will be capitalized and will not affect the profit during the construction period.



4. What is the Company's subsequent financial strategy and financing arrangements?

A: The Company will timely adjust its financial strategy and optimize its debt structure based on the internal and external capital environment, the operation, the financial position and the capital expenditure plans of the Company.

Leveraging the favorable market opportunities, the Company issued financing bond instruments, such as green corporate bond and ultrashort-term financing bonds while moderately enhancing the scale of short-term bank loans to further lower financial cost in the first half of the year. The Company actively expanded its direct financing channels and renewed its USD300 million overseas bond issue in early July 2021, which yielded very satisfactory results. There are certain difficulties in equity financing, and the Company is still studying other feasible equity financing methods. If the acquisition of Bay Area Development is successful, given that it is an overseas listed company, it will also add an overseas investment and financing platform for Shenzhen Expressway. The Company is also studying and promoting other equity financing methods, such as the introduction of project partners, REITS, and the integration and optimization of the Company's existing assets.

As of the end of the interim report period in 2021, unused banking facilities of the Company amounted to RMB15.854 billion.

5. What is the performance of clean energy business in the first half of 2021? What is its future planning?

A: At present, the clean energy business of the Company mainly includes Nanjing Wind Power, Baotou Nanfeng and Mulei Wind Power Project.

In the first half of 2021, the revenue of clean energy business totaled RMB350 million, achieving a good YOY growth. Nanjing Wind Power actively pushed forward the delivery of orders and commissioning of wind power units for projects at hand, and these projects have completed on-grid connection for power generation at full capacity. Nanjing Wind Power signed orders for approximately 100MW wind power projects, which will deliver and confirm the income in the second half of the year. Benefiting from the effective improvement in wind curtailment rate, Baotou Nanfeng completed on-grid power supply of 382,436 MWh, representing a YOY increase of 19.06%. Mulei Wind Power Project acquired in the first quarter, has completed an aggregated on-grid power supply of 339,412 MWh during the consolidation period. The revenue was in line with expectations, accounting for 8%.

As China works towards the goal of reaching "carbon peak" and "carbon neutrality", China implements a series of industrial policies and development plans to promote the clean energy sector, the wind power and photovoltaic power industry will enter a new phase of sound and steady development in the long run. The group will seize the opportunity to build a distinctive "integrated" clean energy system and a Shenzhen power of "carbon peak" and "carbon neutral" in China. The Company will continue to carry out investment and mergers in clean energy projects during the second half of this year and the 14th Five Year period.



6. What is the sales of Phase III of Meilin Checkpoint Renewal Project? When will it bring profit contribution?

A: Phase III of Meilin Checkpoint Renewal Project launched 630 residential units and 2,740 apartments in late 2020. The residential units has been sold out and over 600 apartments have been sold, which are expected to star delivery and recognize investment income in batches at the end of next year.

7. Have the US dollar bonds issued this year been locked in foreign exchange?

A: The US dollar bonds were issued in early July this year and have not been locked in yet. Since the market is currently fluctuating at a high level, it is more costly to lock the exchange rate at this time. The Company will continue to observe the situation and will arrange to lock the foreign exchange at an appropriate time in the future.

8. When will Guangming Environmental Park be put into use?

A: Guangming Environmental Park has started construction this year and the construction period is expected to be two years. It is planned to be put into use in two years.

9. What is the progress of the reconstruction and expansion of Jihe Expressway?

A: The construction of the first-stage section of the reconstruction and expansion of Jihe Expressway started at the end of last year. The project has been approved by the Development and Reform Commission of Guangdong Province at the end of 2020. The preliminary design and budget plan of the project were approved by the Ministry of Transport of the PRC, while the Company was actively undertaking the tendering process. The model of investment and financing of the Jihe Expressway reconstruction and expansion project is still under negotiation. With the aim of fulfilling the conditions to commence construction by the end of 2021, the Company will timely perform the approval process upon confirmation of the model.

Hu Wei, chairman of the Company, said: Although the domestic macroeconomic growth rate in the first half of the year is obvious, the domestic economy has increased some uncertainties based on the new normal due to the influence of the structure and the epidemic, and the complexity of Sino-US relations. In the past few years, Shenzhen Expressway has been forging ahead in the spirit of providing good returns for shareholders, society and employees. After the government bought back four high quality expressways, Shenzhen Expressway has continued to consolidate the Company's main business of toll roads. Up to now, the asset scale and income of the main business of toll roads have fully recovered and surpassed that of five years ago. If the acquisition of Bay Area Development is completed, the Company's advantages of the core assets in the Greater Bay Area will become more obvious. After the completion of the reconstruction and expansion of Jihe Expressway and Guangshen Superhighway, the toll concession period will be extended, and the sustainable development capacity of Shenzhen Expressway will be significantly improved and the Company can continuously return to shareholders.



The Company made the strategic decision of dual core businesses development in the last five-year strategy period, and the progress is better than expected. Supported by the revenue of general-environmental protection business last year, effectively compensated for the loss caused by the free tolls during the epidemic. In the future planning, the Company focuses on solid waste resource management and new energy fields, which are very much in line with the current national industrial orientation and development focus. It also well shows that Shenzhen Expressway's good and professional management team has the forward-looking decision-making ability to step on the key points of national development.

Based on the requirements of shareholders and the development of the Company, the Company has formulated a new dividend plan, and the dividend ratio has been increased from 45% to 55%. The long-term incentive mechanism for key employees in the past three years has been successfully implemented, and the Company is preparing a new long-term incentive plan for key employees for 3~5 years, which will maintain and ensure the Company's employees with passion to continue to work in various businesses.

Located in Shenzhen, a hot land of reform, with the support of many advantageous policies such as Guangdong-Hong Kong-Macao Bay Area, Shenzhen Pilot Demonstration Zone and national comprehensive state-owned enterprise reform policy, Shenzhen Expressway will further optimize the management mechanism to stimulate the enthusiasm of cadres and staff to promote the high-quality and sustainable development of the Company. Please believe that Shenzhen Expressway will always be with you and continue to create due value for the investors.

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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