

**2002 Annual Results Announcement**

- Turnover up 25.9% to Rmb2,168 million
- Net profit up 17.1% to Rmb890 million
- Earnings per share up 17.1% to Rmb20.5 cents
- Return on equity increased by 12.1% to reach 9.2%
- Final dividend of Rmb9.0 cents per share recommended

The directors (the "Directors") of Zhejiang Expressway Co., Ltd. (the "Company") are pleased to announce the audited results of the Company and its subsidiaries (collectively the "Group") for the year ended December 31, 2002 (the "Period") prepared in conformity with accounting principles generally accepted in Hong Kong with the basis of preparation as stated in Note 1 below, together with the 2001 comparative figures as follows:

**RESULTS AND DIVIDENDS**

The Group achieved solid growth during the Period. Total turnover amounted to Rmb2,168 million, representing a 25.9% increase compared to the corresponding period in 2001 (the "Previous Period"). Net profit was Rmb890 million, a 17.1% increase over the Previous Period. Earnings per share was Rmb20.5 cents (2001: Rmb17.5 cents). The Directors are pleased with the results achieved.

In view of the final results, the Directors recommend the payment of a final dividend of Rmb9.0 cents per share (approximately HK\$8.4 cents). Together with an interim dividend of Rmb4.0 cents per share (approximately HK\$3.8 cents) paid on October 31, 2002, the total dividend payable for the Period amounted to Rmb13.0 cents (approximately HK\$12.1 cents) per share.

The audited consolidated income statement for the Period, the assets and liabilities of the Group and relevant financial notes, are set out as below:

**CONSOLIDATED INCOME STATEMENT**

*(All amounts expressed in thousands of Renminbi, except per share data)*

	Notes	Year ended December 31	
		2002	2001
Turnover	2	2,168,078	1,722,517
Operating costs	3	(561,918)	(392,535)
Gross profit		1,606,160	1,329,982
Other revenue	2	66,457	216,690
Administrative expenses	3	(95,209)	(88,487)
Other operating expenses	3	(33,109)	(18,236)
Profit from operating activities		1,544,299	1,439,949
Finance costs		(163,224)	(215,346)
Share of profits of associates		11,719	12,396
Share of loss of a jointly-controlled entity		1,677	(1,459)
Profit before tax		1,394,471	1,235,540
Tax	4	(400,952)	(363,970)
Profit before minority interests		993,519	871,570
Minority interests		(103,067)	(110,957)
Net profit from ordinary activities attributable to shareholders		890,452	760,613
Earnings per share	5	20.5 cents	17.5 cents
<b>Assets and liabilities</b>			
Total assets		14,505,834	14,477,538
Total liabilities		3,826,254	3,685,828
Minority interests		977,789	1,502,629
Net assets		9,701,791	9,289,081

**1. BASIS OF PREPARATION**

The financial statements for the year ended December 31, 2002 have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("HKSSAP"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). They have been prepared under the historical cost convention, modified with respect to the measurement of investments in securities.

**2. TURNOVER AND REVENUE**

Turnover mainly represents toll income from the operation of expressways, the value of advertising services rendered, and the value of road maintenance services rendered, net of relevant revenue taxes.

An analysis of turnover and revenue is as follows:

	2002		2001	
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Toll income - third parties	2,184,197	1,756,265		
Advertising income - third parties	27,742	22,462		
Road maintenance income - third parties	1,704	4,649		
Others - third parties	73,043	34,465		
Less: Revenue taxes	(118,608)	(95,324)		
Turnover	2,168,078	1,722,517		
Income on investments	18,448	105,522		
Interest income	17,063	41,503		
Rental income	14,457	6,726		
Trailer income	10,192	8,278		
Exchange gains, net	1,121	53,172		
Others	5,176	1,489		
Other revenue	66,457	216,690		
	2,234,535	1,939,207		

The Company and its subsidiaries are subject to Business Tax ("BT"), levied at 5% on toll income and 3% to 5% on other services income. In addition, the subsidiaries are subject to the following types of revenue taxes and fees:

- City Development Tax, levied at 1% to 7% of BT;
- Education Supplementary Tax, levied at 3.5% to 4% of BT; and
- Culture and Education Fees, levied at 3% on advertising income.

**3. DEPRECIATION AND AMORTISATION**

	2002		2001	
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Depreciation	223,748	205,582		
Amortisation of expressway operation right	8,700	8,700		
Amortisation of goodwill	15,612	1,043		
	248,060	215,325		

**NOTICE IS HEREBY GIVEN** that the 2002 Annual General Meeting ("AGM") of Zhejiang Expressway Co., Ltd. (the "Company") will be held at 10:00 a.m. on Wednesday, April 30, 2003 at 18th Floor, Zhejiang World Trade Center, 15 Shuang Road, Hangzhou 310007, the PRC for the conduct of the following business:

- A. To pass the following matters as ordinary resolutions:
  1. To consider and approve the report of the Directors for the year 2002;
  2. To consider and approve the report of the Supervisory Committee for the year 2002;
  3. To consider and approve the audited financial statements for the year 2002;
  4. To consider and approve the proposed distribution of profits and the final dividend for the year 2002;
  5. To consider and approve the financial budget for the year 2003;
  6. To consider and approve the re-appointment of Ernst & Young (Hong Kong Certified Public Accountants) and Zhejiang Pan-China Certified Public Accountants (浙江天健會計師事務所), formerly known as Zhejiang Certified Public Accountants (浙江會計師事務所), as the international auditors and the PRC auditors of the Company respectively and to authorize the Board of Directors to fix their remunerations; and
  7. To consider and approve the widening project of the Shanghai-Hangzhou-Ningbo Expressway.
- B. To consider and, if thought fit, pass the following as a special resolution:
 

To authorize the board of directors of the Company (the "Board") to issue additional shares not exceeding 20 per cent. of each of the existing issued domestic shares and overseas listed foreign shares of the Company.

**4. TAX**

No Hong Kong profits tax has been provided as the Group had no taxable profits in Hong Kong during the year.

The Group was subject to Corporate Income Tax ("CIT") levied at a rate of 33% of taxable income based on income for financial reporting purposes prepared in accordance with the laws and regulations in the PRC.

	2002		2001	
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Group:				
Tax charged	367,997	327,718		
Tax refunded/refundable	(79,133)	(68,791)		
Deferred	288,864	258,927		
Share of tax attributable to associates	5,004	17,528		
Share of deferred tax attributable to an associate	(3,294)	(1,951)		
Share of deferred tax attributable to a jointly-controlled entity	991	1,034		
Tax charge for the year	400,952	363,970		

During the Period, according to an approval from the Zhejiang Provincial Local Tax Bureau, Zhejiang Shansan Expressway Co., Ltd. ("Shansan Co.") was entitled to a 50% CIT exemption for the year ended 31 December 2001 amounting to Rmb16,749,000 under the category of "Enterprise Providing Employment Opportunities to Redundant City and County workers" as defined in the relevant national tax rules. In addition, according to a notice issued by the Jiaxing Finance Bureau (the "JFB"), Zhejiang Jiaxing Expressway Co., Ltd. ("Jiaxing Co.") received from the JFB an amount of Rmb71,290,000, representing a refund in relation to the CIT of Jiaxing Co for the period from the fourth quarter of 2000 to December 2001.

Pursuant to a directive issued by the Zhejiang Provincial People's Government in 1997, the Company was entitled to a refund from the Zhejiang Finance Bureau of an amount equal to 18% of its taxable income in respect of the CIT paid to the Zhejiang Tax Bureau. According to a directive from the Ministry of Finance on 13 October 2000, the Company was entitled to the tax refund until 31 December 2001. As Huajian Transportation Economic Development Center ("Huajian"), a state-owned enterprise under the China Merchants Group, became a substantial shareholder of the Company, the CIT that the Company paid has been divided into the national portion and the Zhejiang portion. The national portion of the total CIT paid, being Huajian's portion of the total domestic shares (i.e. 16.39%) according to relevant regulations issued by the Ministry of Finance, is no longer entitled to the 18% refund granted by the Zhejiang Provincial People's Government.

Nevertheless, according to a notice issued by the State Council on 31 December 2001, with effect from 1 January 2002, CIT payments are divided into two portions on a 50/50 basis - the national portion and the local portion. Since the CIT in relation to the fourth quarter of 2001 was paid in 2002, the Company was only entitled to the 9% refund from the Zhejiang Finance Bureau in respect of the CIT for the fourth quarter of 2001. The CIT refund of Rmb8,906,000 recognised in year 2001 became not recoverable and has been recorded as tax charge for 2002.

There was no material unprovided deferred tax in respect of the Period (2001: Nil).

**5. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of Rmb890,452,000 (2001: Rmb760,613,000) and the 4,343,114,500 shares (2001: 4,343,114,500 shares) in issue during the year.

Diluted earnings per share for the years ended December 31, 2002 and 2001 have not been calculated as no diluting event existed during these years.

**6. TRANSFER TO RESERVES**

In accordance with the Company Law of the PRC and the articles of association of the Company, its subsidiaries, its associates and its jointly-controlled entity (collectively the "Entities"), the Entities are required to allocate 10% of their profit after tax, as determined in accordance with the PRC accounting standards and regulations applicable to the Entities, to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the Entities. As a result, Rmb93,498,000 was transferred to the SSR for the year ended December 31, 2002. Subject to certain restrictions set out in the Company Law of the PRC and the respective articles of association of the Entities, part of the SSR may be converted to increase the Entities' share capital.

In accordance with the Company Law of the PRC, the Entities are required to transfer 5% to 10% of their profit after tax, as determined in accordance with the PRC accounting standards and regulations applicable to the Entities, to the statutory public welfare fund (the "PWF"), which is a non-distributable reserve other than in the event of the liquidation of the Entities. For the year ended December 31, 2002, Rmb46,749,000 was transferred to the PWF. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain as properties of the Entities.

**BUSINESS REVIEW**

During the Period, the Group's business operations continued to focus on the two major expressways: the 248km Shanghai-Hangzhou-Ningbo Expressway and the 142km Shansan Expressway, with toll income contributing to approximately 95.5% of the Group's total income, details of which are as follows:

	2002		2001		% change
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	
Toll income	2,184,197	1,756,265			+24.4
Shanghai-Hangzhou-Ningbo Expressway	1,745,931	1,438,191			+21.4
Shansan Expressway	438,266	318,074			+37.8
Other income					
Advertising	27,742	22,462			+23.5
Road Maintenance	1,704	4,649			-63.3
Service Areas	73,043	34,465			+111.9
Revenue taxes	2,286,686	1,817,841			+25.8
	(118,608)	(95,324)			+24.4
Turnover	2,168,078	1,722,517			+25.9

**Toll Road Operations**

Both traffic volume and toll income of the Shanghai-Hangzhou-Ningbo Expressway continued to grow during the Period. Daily average full-trip traffic volume was 25,048, representing an increase of 21.6% over the Previous Period, while toll income for the Period was approximately Rmb1,746 million, representing an increase of 21.4% over the Previous Period and 79.9% of the Group's total toll income (2001: 81.9%).

Fully completed and opened to traffic in 2000, the Shansan Expressway continued to operate at a high rate of growth in traffic volume, benefiting from both a lower basis of comparison and an increasingly enhanced expressway network within the province. During the Period, daily average full-trip traffic volume was 11,634, representing an increase of 39.8% over the Previous Period, while toll income for the Period was approximately Rmb438 million, representing an increase of 37.8% over the Previous Period and 20.1% of the Group's total toll income (2001: 18.1%).

Shida Road, a 9.45km interlink owned and operated by Hangzhou Shida Highway Co., Ltd. ("Shida Co."), a 50% owned and jointly-controlled entity of the Company, enjoyed a surge in traffic volume and toll income. The surge was mainly the result of Shida Road being the only link between the northern section of the newly completed Hangzhou City Ring Road and the Shanghai-Hangzhou-Ningbo Expressway. With traffic volume growth at 72% and toll income growth at 46.8%, Shida Co. recorded its first-ever net profit for the Period of approximately Rmb1.4 million (2001: - Rmb5.0 million).

Following the successful launch of the pre-paid IC card system in October 2002 and a subsequent upgrade in October 2000, the system was expanded to cover the Shansan Expressway in 2002. The system, designed to reduce cash transactions for toll collection, contributed total sales of Rmb81.7 million for the Period, representing an increase of 253% over the Previous Period.

Started in the second half of 2002, the major road surface-overlaying project on the Shanghai-Hangzhou-Ningbo Expressway covered a length of approximately 93km. Including sizeable repairs and bridge-head differential-settlement treatments along the affected sections, the combined cost was approximately Rmb156.0 million, in addition to the cost of Rmb33.1 million attributable to routine maintenance works.

According to plans approved by the board of directors of the Company on March 4, 2003, another section of Shanghai-Hangzhou-Ningbo Expressway, totalling approximately 84km, will undergo road surface-overlay in 2003 at a cost of approximately Rmb141.4 million.

**Other Businesses**

**Service Area Operations**

After the opening of two more service areas at full capacity along the Shansan Expressway at the beginning of 2002, there are currently five service areas in operation under the Group. Revenue from service areas was further enhanced with a newly implemented contract-out policy, through an open bidding process, for some of the businesses available at these service areas. The policy has significantly increased returns generated by the facilities concerned, contributing a total revenue of approximately Rmb73.0 million for the five service areas, an increase of approximately 112% over the Previous Period when only three service areas were in operation.

**Advertising Business**

The Company further expanded its roadside billboard advertising business from the Shanghai-Hangzhou-Ningbo Expressway to the Shansan Expressway. The business is operated by Zhejiang Expressway Advertising Co., Ltd., a 70% owned subsidiary of the Company. Although turnover grew substantially by 23.6% to reach Rmb27.7 million for the subsidiary, net profit grew only slightly by 7.0% to Rmb7.8 million, mainly due to increased costs at the initial phase of business expansion to the Shansan Expressway, as well as increased market competition from areas surrounding the expressways.

**Petroleum Co**

Growing demand, as well as increasing competition in the petroleum retail market, presented both opportunities and challenges for Zhejiang Expressway Petroleum Development Co., Ltd. (the "Petroleum Co"), a 50% owned associate of the Company. Continued growth in retail sales contributed a net profit for the Period of approximately Rmb16.3 million for Petroleum Co (2001: - Rmb10.4 million).

**JoinHands Technology**

Having expanded into the new field of design and consulting services for logistics centers, JoinHands Technology Co., Ltd. ("JoinHands Technology"), a 27.58% owned associate of the Company, made further investments in project research and development during the Period. JoinHands Technology recorded a net profit for the Period of Rmb6.8 million, a slight decrease by 1.4% as compared to the Previous Period due to heavier investment in research and development.

**Project Investments**

In addition to the acquisition of a 12.7% equity interest in Zhejiang Jiaxing Expressway Co., Ltd. and a 2.0% equity interest in Zhejiang Shansan Expressway Co., Ltd. ("Shansan Co."), a 71.6% owned subsidiary) in January 2002, for a total consideration of Rmb444,592,000 in cash, the Company further entered into sale and purchase agreements in August 2002 to purchase from Zhejiang Communications Investment Group Co., Ltd. and Tiantai County Transport Development Company a 6.625% equity interest and a 2.0% equity interest, respectively, in Shansan Co for a consideration of Rmb187.62 million and Rmb57.6 million in cash, respectively. Details of the acquisitions were disclosed in the Company's 2001 Annual Report, and announcement dated August 20, 2002.

In response to the rapid expansion of the regional economy and the fast growth of expressway traffic, and in view of the decline of the average travel speed and level of service along the Shanghai-Hangzhou-Ningbo Expressway in recent years, initiatives have been undertaken to widen the expressway from its current four lanes to eight lanes (the "Widening Project"). Involving a total distance of 223 km and at an estimated cost of approximately Rmb4,780 million, the overall Widening Project is expected to be completed by the end of 2007.

The initial phase of the Widening Project, from Hongken to Guzhu, pertains to approximately 44km in length. Construction of the project commenced in October 2000 and is progressing ahead of schedule with completion expected by the end of 2003. At a construction cost of approximately Rmb466.68 million as of the latest budget, the section is expected to be widened to eight lanes instead of six as originally planned, with emergency parking areas provided at intervals of 500 meters. A committee of specialists and experts has approved the change in plans, with final approval by relevant authorities expected to be obtained later this year.

The next phase of the Widening Project, from Dajing to Fengjing, pertaining to approximately 95 km and budgeted at approximately Rmb2,508.19 million, is being designed for widening to a standard eight-lane expressway. Construction works are expected to commence in the fourth quarter of 2003, with completion targeted by the end of 2006.

The last phase of the Widening Project, from Guzhu to Dazhuji, pertaining to approximately 84km and budgeted at approximately Rmb1,625.41 million. Construction works are expected to commence in mid-2004 and to be completed by the end of 2007. Construction works will take place off the shoulders of the expressway, such that traffic flow on the traveled lanes will not be stopped. Measures have been taken so as not to significantly slow down normal traffic flow.

**Human Resources**

As at December 31, 2002, the Group had a total of 1,998 employees, among whom 342 were administrative staff, 161 were engineering technicians, and 1,495 were toll collection and maintenance staff.

Recognizing that human resources are the first and foremost resources in any endeavor it undertakes, the Company made substantial efforts in training and recruiting staff with an aim to realize its long-term strategic goals. The Company initiated a scheme during the Period in which job performance evaluation is more closely linked with incentives. The scheme proved to be a great success, especially in the routine maintenance area where unit cost was reduced by 25% while quality of repairs was enhanced.

**FINANCIAL ANALYSIS**

Driven by a better-than-expected business performance in the Period, net profit attributable to shareholders realized by the Group was approximately Rmb890 million, representing an increase of 17.1% over the Previous Period, while return on equity for the Period was approximately 9.2%, compared with 8.2% in the Previous Period.

**Liquidity and Financial Resources**

The Group continued to generate strong and steady cash inflows from its ordinary operating activities. Net cash inflow from operating activities in the Period was approximately Rmb1,536 million, representing an increase of Rmb458 million over the Previous Period.

As at December 31, 2002, the Group held Rmb1,807.2 million in cash and cash equivalents, time deposits and short-term investments, with cash and cash equivalents accounting for 36.9%, time deposits for 15.6% and short-term investments for 47.5% of the total.

Among the Rmb858,114,000 held in short-term investments, approximately 85% are held in government bonds, with the remaining 15% held in corporate bonds and close-ended security investment funds, etc.

The average interest rates for bank deposits in Renminbi, US Dollars, Euro and HK Dollars during the Period were approximately 1.1%, 3.7%, 0.7% and 1.6%, respectively, while average yield of short-term investments during the Period was approximately 2.0%. The Directors do not expect to experience any problem with liquidity in the foreseeable future.

**Borrowings and Capital Structure**

As at December 31, 2002, the Group had total interest bearing borrowings equivalent to approximately Rmb3,038.2 million, including World Bank borrowing and corporate bonds, among which Rmb2,147.6 million was subject to fixed interest rates, and Rmb890.6 million was subject to floating interest rates.

With the average interest rate in the Period at approximately 4.8%, total interest expense for the Period was approximately Rmb163.2 million, resulting in a profit before taxation and interest to interest expense ratio of 8.9 (2001: 4.8).

In addition, non-interest bearing liabilities and shareholders' equity of the Group amounted to approximately Rmb1,765.8 million and Rmb9,701.8 million, respectively. The ratio of total liabilities over shareholders' equity at the end of 2002 was 49.5% (2001: 55.9%).

Net proceeds, in the amount of Rmb991 million, from the issue of Rmb1 billion corporate bonds by the Company in the period from January 24 to February 17, 2003, have been received by the Company on February 19, 2003. Details of the issue were disclosed in the Company's announcement dated January 22, 2003.

**Commitments and Utilization of Capital Expenditure**

Capital expenditures incurred during the Period was approximately Rmb31.6 million, approximately Rmb689.8 million of which was used on acquisition of additional interests in subsidiaries. Most of the remaining capital expenditure was used on the Widening Project and other expressway-related projects.

Capital expenditure commitments for the Group as at December 31, 2002 amounted to approximately Rmb5,454 million, among which Rmb4,483 million will be used on the Widening Project, with the remaining balance to be used on other expressway-related projects. In addition to the capital commitment disclosed above, the Directors have approved budget of repairing costs amounting to Rmb141.0 million.

The Company will finance its capital expenditure needs with its own financial resources, as well as through additional bank borrowings and/or issue of corporate bonds.

**Contingent Liabilities**

Other than a guarantee of Rmb30 million provided in favor of Shida Co, in respect of a commercial bank loan of the same amount extended to Shida Co from September 2001 and maturity in September 2009, the Group does not have any contingent liabilities as at December 31, 2002.

**Guarantees and Pledges of Assets**

Other than the guarantee mentioned above, the Group does not have any other guarantees and pledges of assets.

**Foreign Exchange Exposure**

The Group had an outstanding World Bank loan denominated in US Dollars in the amount of Rmb890.6 million as at December 31, 2002. In addition, the Company paid its dividends for H Shares in HK Dollars.

Although all incomes of the Group are settled in Renminbi and the Directors do not anticipate any substantial fluctuations in the exchange rates between Renminbi and foreign currencies that will cause material foreign exchange exposure to the Group, there is no assurance that the foreign exchange exposure will not affect the operating results of the Group.

**Employees' Basic Medical Insurance Scheme**

Medical expenses for employees of the Group were accounted for as part of the benefits provided by the Group in 2002 and the years before, in accordance with relevant accounting rules and internal policies. Following the promulgation of employees' basic medical schemes by local governments in Zhejiang Province starting from the second half of 2002, the Group is expected to enroll in these compulsory schemes in 2003