

2001 Results Announcement

Results Highlights:

- Turnover of the Group increased by 44.9% over 2000 to Rmb1,723 million
- Net profit attributable to shareholders increased by 19.6% over 2000 to Rmb761 million
- Earnings per share was Rmb17.51 cents, an increase of 19.6% over 2000
- Shanghai-Hangzhou-Ningbo Expressway contributed to 81.9% of Group's toll income while Shanshan Expressway emerged as another significant toll income generator with its first full-year of operation in 2001

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, 2001 (the "Period"), prepared in conformity with the accounting principles generally accepted in Hong Kong with the basis of preparation as stated in Note 1 below, together with the 2000 comparative figures as follows:

RESULTS AND DIVIDENDS

The Group achieved solid growth during the Period. Total turnover amounted to Rmb1,722.5 million, representing a 44.9% increase compared to the corresponding period in 2000 (the "Previous Period"). Net profit was Rmb760.6 million, a 19.6% increase over the Previous Period. Earnings per share was Rmb17.51 cents (2000: Rmb14.64 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 Rmb0.07 per share (approximately HK\$0.0660). Together with an interim dividend of Rmb0.03 per share (approximately HK\$0.0283) paid on October 24, 2001, the total dividend payable for the Period amounted to Rmb0.10 (approximately HK\$0.0943) 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)

	Year ended December 31		
	2001	2000	
Turnover	2	1,722,517	1,188,604
Operating costs		(392,535)	(248,429)
Gross profit		1,329,982	940,175
Administrative expenses		(88,487)	(64,978)
Other operating expenses	2	(18,236)	(75,317)
Profit from operating activities		1,439,949	1,042,768
Finance costs		(215,346)	(197,083)
Share of profits of associates		12,396	40,584
Share of loss of a jointly-controlled entity		(1,459)	(6,517)
Profit before tax	3	1,235,540	879,752
Tax		(363,970)	(186,391)
Profit before minority interests		871,570	693,361
Minority interests		(110,957)	(57,360)
Net profit from ordinary activities attributable to shareholders		760,613	636,001
Transfer to reserves	4	(193,029)	(147,187)
Earnings per share	5	17.51 cents	14.64 cents
Assets and liabilities			
Total assets		14,477,538	14,586,420
Total liabilities		3,685,828	4,128,921
Minority interests		1,502,629	1,495,364
Net assets		9,289,081	8,962,135

Notes:

1. BASIS OF PREPARATION

The financial statements for the year ended December 31, 2001 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:

	2001		2000	
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Toll income-third parties	1,756,265	1,219,672	15,878	15,878
Advertising income - third parties	22,462	15,878	4,649	5,130
Road maintenance income - third parties	4,649	5,130	34,465	15,582
Others - third parties	1,817,841	1,256,262	(93,324)	(67,658)
Less: Revenue taxes	1,722,517	1,188,604		
Turnover	1,722,517	1,188,604		
Income on short term investments	105,522	153,566		
Interest income	41,503	73,195		
Rental income	6,726	7,098		
Trailer income	8,278	6,821		
Exchange gains	53,772			
Others	1,489	2,208		
Other revenue	216,690	242,888		
	1,939,207	1,431,492		

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

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

3. 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 the 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.

Pursuant to a directive issued by 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 Zhejiang tax bureau. According to a directive of the State Council, the Company was entitled to the tax refund until December 31, 2001. Such beneficial treatment was not granted to subsidiaries, associates or jointly-controlled entities of the Company.

As Huaijin Transportation Economic Development Center ("Huaijin"), a state-owned enterprise established by the Ministry of Communication, became a substantial

shareholder of the Company during the Period, the CIT that the Company paid has been divided into the national portion and Zhejiang portion. The national portion of the total CIT paid, being Huaijin'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 Zhejiang Provincial Government.

In this regard, the tax refunded and refundable represents the financial subsidies received and receivable by the Company from Zhejiang Finance Bureau in respect of the year.

	2001		2000	
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Group:				
Tax charged	327,718	185,307		
Overprovision in prior year	—	(1,474)		
Tax refunded/refundable	(68,791)	(50,840)		
Deferred	258,927	132,993		
	88,432	39,755		
Share of tax attributable to associates	17,528	6,074		
Share of deferred tax attributable to an associate	(1,951)	6,302		
Share of deferred tax attributable to a jointly-controlled entity	1,034	1,267		
Tax charge for the year	363,970	186,391		

There was no material unprovided deferred tax in respect of the year (2000: Nil)

4. 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 (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, Rmb125,524,000 was transferred collectively for the year ended December 31, 2001. 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 addition, Shanshan Co was required by the relevant tax authorities to transfer its CIT waived for 2000 to its SSR account in 2001. The transfer has been incorporated in these financial statements.

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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 Rmb760,613,000 (2000: Rmb636,001,000) and the 4,343,114,500 shares (2000: 4,343,114,500 shares) in issue during the year.

Diluted earnings per share for the years ended December 31, 2001 and 2000 have not been calculated as no diluting event existed during these years.

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

During the Period, the Group's turnover was approximately Rmb1,723 million, representing an increase of 44.9% over 2000. Net profit attributable to shareholders was Rmb761 million, representing an increase of 19.6% over 2000.

Contribution from the core business of toll road operations continued to dominate the Group's turnover. Of the total turnover of Rmb1,723 million for the Period, Rmb1,663 million or 96.6% came from toll collection.

Toll Road Operations

With the first full-year contribution from the Shanshan Expressway following its completion and opening to traffic on December 26, 2000, toll income for the Group during the Period grew strongly by 44.0% over the same period in 2000 to reach Rmb1,756.3 million. A breakdown of toll income contributions among the expressways operated by the Group and their various sections is set out below:

	Toll Income Rmb '000	% of Total Toll Income	Growth % Over 2000
Shanghai-Hangzhou Expressway			
Jiaxing section	506,463	28.8%	30.0%
Yuhang section	115,560	6.6%	14.1%
Hangzhou section	36,062	2.1%	16.0%
Hangzhou-Ningbo Expressway	780,106	44.4%	18.3%
Shanshan Expressway	138,074	18.1%	732.7%
Total	1,756,265	100.0%	44.0%

The significant growth in toll income was also partly attributable to the adoption of a new vehicle classification policy which started on June 13, 2001. The new policy effectively increased the average toll collected per vehicle by approximately 9.50% on the Shanghai-Hangzhou-Ningbo Expressway, and by approximately 8.96% on the Shanshan Expressway.

During the Period, toll income of the Shanghai-Hangzhou-Ningbo Expressway grew by 21.7% when compared to 2000 to reach Rmb1,438 million, representing approximately 81.9% of the Group's total toll income (2000: 96.9%). Monthly average daily full toll traffic volume grew by 15.9% over 2000 on average.

There was an unusual surge in traffic volume on the Jiaying section during the second half of the year, partly due to traffic diversions from the parallel section of Nation Road 320 which was partially closed for repairs and renovation during that time. The surge in traffic is considered to be temporary and is not expected to last into 2002.

During the Period, the Company introduced a number of measures to provide a relatively high level of service to expressway users while accommodating growing traffic: the computer main board used in toll collection was upgraded to reduce processing time at toll stations, as a result of which incidents of road congestion was reduced by approximately 21% through streamlining the traffic monitoring and control system on the expressway. The rechargeable non-contact prepaid IC card used in paying toll charges was launched in May 2001, which offers further flexibility and convenience to frequent expressway users, reduces error rates and improves reliability of the collection and safeguarding of toll income.

Shanshan Expressway

2001 was the first year of full-year operation since the expressway was fully completed and opened to traffic in December 2000. Daily full toll traffic volume grew steadily from an average of 7,901 during the first half of the year to 8,695 during the second half of the year. Daily average full toll traffic volume for the year was 8,301.

With toll income contribution of approximately Rmb318 million in 2001, representing 18.1% of the Group's total toll income, the Shanshan Expressway has become a significant contributor to the Group in both revenue and net profit.

The performance in traffic volume as well as toll income was generally in line with the latest forecasts provided by the Company's traffic consultant. This was despite a higher occurrence of partial road closure due to expressway traffic accidents, as well as adverse weather conditions during its first full year of operation.

Notice of 2001 Annual General Meeting

Investment Company Limited (collectively reorganised as Zhejiang Communications Investment Group Co., Ltd.), representing approximately 67% of the total ordinary shares issued by the Company.

4. To amend the article 19 of the Article of Association as follows:

"After the establishment of the Company, 4,343,114,500 ordinary shares were issued of which 1,433,854,500 were issued as overseas listed foreign invested shares representing approximately 33% of the total number of ordinary shares which were issued by the Company. The shareholding structure of the Company comprises 4,343,114,500 ordinary shares of which 2,432,500,000 domestic invested shares are held by the promoter, Zhejiang Communications Investment Group Co., Ltd., 476,760,000 domestic invested shares are held by Huaijin Transportation Economic Development Center, and 1,433,854,500 overseas listed foreign invested shares are held by holders of overseas listed foreign invested shares."

5. 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.

"THAT:

- (1) Subject to paragraphs (2) & (3) below, the exercise by the Board during the Relevant Period (as defined in paragraph (5) hereunder) of all the powers of the Company to allot, issue or otherwise deal with either separately or concurrently, each of the existing issued domestic shares ("Domestic Shares") and overseas listed foreign shares ("H Shares") in the capital of the Company be and is hereby approved;
- (2) Subject to the approval as required under paragraph (1) above, the Board shall be authorised to allot or issue Domestic Shares and/or H Shares, either separately or concurrently, of not more than 20 per cent. of each of the existing issued Domestic Shares and H Shares in the capital of the Company as at the date of passing this resolution;
- (3) Approval as required in paragraph (1) above is subject to the granting of approval from the China Securities Regulatory Commission;
- (4) Approval of paragraph (1) above includes the authorization of the Board to deal with the matters concerning the issue of A shares to the public ("A Share Issue") in accordance with the resolutions in relation to the A Share Issue passed at the extraordinary general meeting of the Company held on March 22, 2001 including:
 - (a) To determine the basic offer price, the price range of the issue, methods of the issue and the final issue price and the final number of shares to be issued;
 - (b) To execute any material contracts in connection with the investment projects in relation to the A Share Issue;
 - (c) To deal with other matters relating to the A Share Issue.

Shida Road

Traffic volume on Shida Road benefited from an increasingly enhanced expressway network, as well as persistent efforts by Hangzhou Shida Highway Co., Ltd. ("Shida Co") in promoting the use of Shida Road through traffic radio broadcasting and installation of road signs. Average daily traffic volume on Shida Road grew by 65% to reach 6,767 vehicles, while toll income grew by 74.3% to reach Rmb19.2 million.

Due to substantial interest payments and depreciation charges, Shida Co still recorded a loss of Rmb5.0 million despite its toll income growth, although the loss was reduced by 67.9% as compared to the loss of approximately Rmb15.6 million during the same period in 2000. The company is expected to break even by the end of 2002.

Other Businesses

In addition to carrying out advertising business along expressways through a subsidiary company, the company is also engaged in retailing petroleum products as well as in the design and marketing of logistics management and anti-counterfeiting systems through two of its associate companies, details of which are set out below.

Advertising Co

During the Period, Zhejiang Expressway Advertising Co., Ltd. ("Advertising Co") further expanded its advertising business along the expressways operated by the Group through flexible pricing and incentive marketing strategies. Turnover from Advertising Co was approximately Rmb21.2 million, representing an increase of approximately 46.2% over 2000. Contributions from newly acquired businesses constituted approximately 52% of overall turnover.

Net profit realized by Advertising Co during the Period was approximately Rmb7.3 million, representing a reduction of 43.0% over 2000. The reduction was due to the first time levy of enterprise income tax, from which the company has been exempted for the past two years.

Petroleum Co

With a new emphasis on retail sales of petroleum products, Zhejiang Expressway Petroleum Development Co., Ltd. ("Petroleum Co") was able to realize a 21% growth in retail sales amid increasing retail competition and substantially reduced wholesale business.

However, mainly due to a revocation in corporate income tax exemptions which the Company had enjoyed over the past two years, Petroleum Co suffered a loss of approximately Rmb10.4 million for the Period.

JointHands Technology

Following a successful trial run in Zhejiang Province, JointHands Technology Co., Ltd. ("JointHands Technology") has begun to market its core technology in logistics management and anti-counterfeiting systems in a number of other provinces with an aim to become a leading player in the market.

Turnover realized during the Period was approximately Rmb24.9 million, while net profit was approximately Rmb6.9 million, compared to Rmb6.25 million and Rmb0.25 million, respectively, in 2000.

Project Acquisition

Through arm's length negotiations with relevant parties, the Company was able to successfully increase its stake in Zhejiang Jiaying Expressway Co., Ltd. ("Jiaying Co"), which is the holding company of the Jiaying section of the Shanghai-Hangzhou Expressway, details of which are set out below:

- On June 4, 2001, the Company entered into agreements to acquire a 2.1% and a 1.0% equity interest in Jiaying Co from Jiaying Xiuzhou Yitong Development Company and Jiangshan County Yitong Company Limited for a consideration of Rmb3,249,984 and Rmb30,119,040, respectively.
- Subsequently, on December 26, 2001, the Company entered into agreements to acquire a 1.5% and a 1.3% equity interest in Jiaying Co from Haining Hengdong Development Company and Tongxiang Huatong Company for a consideration of Rmb44,620,800 and Rmb38,671,400, respectively.
- And finally on January 18, 2002, the Company entered into an agreement to further acquire a 9.9% equity interest in Jiaying Co from Jiaying Road and Bridge Construction and Development Company for a consideration of Rmb303,700,000.

In addition to the above, the Company entered into an agreement on December 27, 2001 to acquire a 2% equity interest in Zhejiang Shanshan Expressway Co., Ltd. ("Shanshan Co") which owns and operates the Shanshan Expressway, from Shengzhou Shanshan Development Company Limited for a consideration of Rmb7,600,000.

Through the above-mentioned transactions, the Company increased its stake in Jiaying Co from 84.19% to 99.99% in aggregate, and in Shanshan Co from 61% to 63%, for a total consideration of Rmb37,961,224.

Project Under Construction

Construction works to expand a 44km section of the Shanghai-Hangzhou-Ningbo Expressway between Hongken and Guzhu from four lanes to six lanes progressed in accordance with the work schedules. During the Period, treatment and maintenance and most of the roadbed buildup works were completed along the expansion route.

II. FINANCIAL ANALYSIS

The Group adopts a financial policy characterized by being both proactive and prudent. The Directors and senior management review the Group's liability portfolio from time to time, and make adjustments whenever they deem necessary to establish an effective and stable capital structure. In view of the Group's future profitability, the Directors and senior management also make prudent investment decisions from time to time with an aim to achieve long-term stable growth for the Group.

Return on Equity

The return on equity for the Period (before charging the distributable dividends) was 8.2%, representing an increase of 15.5% over the Previous Period (i.e. 7.1%).

The return on equity for the year ended December 31, 2000 has been restated because the shareholders' equity as at December 31, 2000 was adjusted retrospectively for the proposed final dividend of Rmb0.07 per share according to the revised HKSSAP 9 (i.e. Events after the balance sheet date). The proposed final dividend which is used to be accounted for as a liability and was restated as an allocation of retained earnings within capital and reserves in the balance sheet.

Liquidity

Net Operating Cash Inflows

As a toll road operator, the Group has generated strong and steady cash inflows from its ordinary operations since its establishment.

	2001 Rmb million	2000 Rmb million	Increase %
Daily toll income received	4.8	3.3	45.5%
Net operating cash inflows from the year	1,603	1,040	54.1%

Further Financing Arrangements

In addition, the Group is scheduled to issue 300,000,000 shares of domestic shares in the PRC, the estimated net proceeds of which is expected to amount to Rmb1 billion.

As a result, the Directors do not anticipate any liquidity concerns in the foreseeable future.

Capital Expenditure Commitments and Financial Resources

As at December 31, 2001, the Group and the Company had capital expenditure commitments of Rmb2,589.6 million and Rmb2,068.9 million, respectively. For 2002 and 2003, capital expenditure in the amount of Rmb1,055 million and Rmb350 million respectively are budgeted for the Group.

Capital Structure

As at December 31, 2001, shareholders' equity, interest bearing borrowings and other non-interest bearing liabilities amounted to Rmb9,289.1 million, Rmb3,029.0 million and Rmb2,159.4 million, respectively. The gearing ratio (i.e. representing total liabilities/shareholders' equity) is 55.9% (2000: 62.8%).

The Directors are of the view that the current gearing ratio is relatively low, thus providing more room for obtaining debt financing for the future development of the Company.

Cash and Debt Management

For the Period, the Group held Rmb1,831.2 million in cash and cash equivalents, time deposits and other short-term investments, among which 89.4%, 5.5%, 4.4% and 0.7% were held in Rmb, US dollars, Euro and Hong Kong dollars respectively. The average interest rates during the Period for bank deposits were 1.5%, 4.0%, 4.1% and 3.6% respectively for the above-mentioned currencies. Meanwhile, total borrowings for the Period amounted to Rmb3,029.0 million for the Group.

Short-term Investments

Because of the steady cash inflows generated from the core business of toll road operations of the Group, the Group carried out a number of prudent short-term investments to maximize returns on funds temporarily idle while limiting investment risks. For the Period, the market value of the remaining short-term investments for the Group totalled Rmb1,012.2 million, with 72.5% in government bonds, 15.9% in convertible bonds, 9.7% in closed-end equity investment funds, and 2.0% in open-end equity investment funds. In 2001, profit before taxation from short-term investments was approximately Rmb105.5 million (2000: Rmb153.6 million), and the corresponding average rate of return on investments was approximately 10.5% (2000: 12.0%).

Borrowings

As at December 31, 2001, total borrowings of the Group amounted to Rmb3,029.0 million, of which Rmb935.4 million was from World Bank loans and Rmb2,093.6 million was from commercial bank loans, policy loans and corporate bonds. During the Period, the interest rates of all borrowings of the Group did not have any material changes when compared with those in 2000. In particular, the floating rate of World Bank loans in US dollars ranged between 5.1% and 8.8%; the interest rate of commercial bank short-term loans ranged between 5.0% and 5.6%; and the interest rate of policy loans ranged between 3.0% and 5.5%; and the interest rate of corporate bonds was 3.8%.

Ratio of Gains to Inter