

1999 Interim Results Announcement



浙江滬杭甬高速公路股份有限公司
ZHEJIANG EXPRESSWAY CO., LTD.

The board of directors (the "Directors") of Zhejiang Expressway Co., Ltd. (the "Company") are pleased to present the unaudited consolidated operating results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the six months ended 30th June, 1999 (the "Period"), prepared in conformity with the accounting principles generally accepted in Hong Kong (the "Hong Kong GAAP"), together with the 1998 comparative figures as follows:

1. PROFIT AND LOSS ACCOUNT (UNAUDITED)

	Notes	For the six months ended 30th June, 1999	
		RMB'000	RMB'000
Turnover	(1)	456,609	291,290*
Operating profit		314,522	231,728
Share of profit of an associated company		10,028	—
Profit before taxation		324,550	231,728
Taxation	(2)	(45,247)	(37,932)
Profit after taxation		279,303	193,796
Minority interests		(40,257)	(29,446)
Profit after taxation and minority interests		239,046	164,350
Profit attributable to shareholders		239,046	164,350
Transferred to reserves	(3)	—	—
Interim dividend		RMB1.5 cents	—
Earnings per share	(4)	RMB5.5 cents	RMB3.78 cents

Notes:
* Turnover reported in the Last Corresponding Period (1st January to 30th June, 1998) has been amended from RMB305,296,000 to RMB291,290,000 to more accurately reflect toll revenue generated from the Group's principal business, namely, the operation of expressways (net of relevant revenue taxes). The former figure had included revenue generated from non-principal businesses such as advertising and automobile servicing along the expressways operated by the Group, in addition to toll revenue generated from the operation of expressways.

- Turnover**
Turnover represents toll revenue generated from the Group's operation of expressways, net of relevant revenue taxes.
- Taxation**
(i) Under PRC laws and regulations, enterprises are generally subject to Enterprise Income Tax ("EIT") at the rate of 33 per cent. of their assessable income. Pursuant to a notice from the Zhejiang Provincial Government in 1997, the Company is entitled to a refund of an amount equal to 18 per cent. of the Company's assessable income for the purpose of EIT. Zhejiang Yuhang Expressway Co., Ltd. ("Yuhang Co.") and Zhejiang Jiaxing Expressway Co., Ltd. ("Jiaxing Co.") and Zhejiang Shangshan Expressway Co., Ltd. ("Shangshan Co.") also enjoy similar refunds pursuant to notices issued by the Yuhang Municipal Government, the Jiaxing Municipal Government and the Zhejiang Provincial Government, respectively. Although there is no assurance that the Company and these subsidiaries will continue to enjoy such refunds in the future, the Company is not aware of any governmental policy changes such that such refunds will cease to be available to the Company and the aforesaid subsidiaries. Zhejiang Gaotong Stone Development Co., Ltd., Zhejiang Expressway Advertising Co., Ltd. ("Advertising Co.") and Zhejiang Expressway Petroleum Development Co., Ltd. ("Petroleum Co.") do not enjoy such refunds.
(ii) No provision for Hong Kong profits tax has been made in the results for the Period as the Group had no income which would be subject to Hong Kong profits tax.
- Transferred to reserves**
No retained profits was transferred to any reserves for the Period.
- Earnings per share**
The calculation of earnings per share for the Period is based on the profit after taxation and minority interests for the Period of RMB239,046,000, and 4,343,114,500 shares in issue throughout the Period (being the total amount of issued shares of the Company).

2. INTERIM DIVIDEND AND CLOSURE OF REGISTER

The Directors have resolved to recommend the payment of an interim dividend of RMB0.015 (approximately HK\$0.014, based on an exchange rate of HK\$1 to RMB1.07 (for reference only)) per share in respect of the Period. No interim dividend was paid by the Company in 1998. The payment of such dividend to its shareholders (including holders of H shares of the Company (the "H Shares")) is subject to the approval of the Company's shareholders at the Extraordinary General Meeting, which is expected to be convened in Hangzhou on 20th September, 1999. The dividend is expected to be paid on or before 10th October, 1999.

Based on the above, the register of members of the Company will be closed from 20th August, 1999 to 20th September, 1999 (both days inclusive), during which period no transfer of shares will be registered. Holders of the H Shares who wish to qualify for payment of the said dividend shall deliver their instruments of transfer together with the relevant share certificates to HKSCC Registrars Limited, the registrar of H Shares of the Company, at 2/F, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong by no later than 4:00 p.m. on 19th August, 1999. The dividend for the H Shares will be paid in Hong Kong dollars based on the average of the daily exchange rate quoted by the People's Bank of China in the five trading days immediately preceding the date of the declaration of the dividend.

3. BUSINESS REVIEW

The Group's unaudited profit attributable to shareholders for the Period was approximately RMB239,046,000, representing an increase of 45.45 per cent. over that of the same period in 1998. The Directors are satisfied with the results for the Period.

(1) Shanghai-Hangzhou-Ningbo Expressway

Traffic volume and toll revenue

The entire Shanghai-Hangzhou-Ningbo Expressway (total length of approximately 247.6 km) was fully opened to traffic in December 1998, linking the three important cities of Shanghai, Hangzhou and Ningbo, all of which are densely populated and important industrial and commercial centres located in the southeast coastal economic development zones, and have contributed to the substantial growth in traffic volume. During the Period, the weighted average daily full trip traffic volume increased by 24.4 per cent. over that of the same period last year to 13,610 vehicles per day, while toll revenue increased by 73.5 per cent. over that of the same period last year to approximately RMB429,080,000 (as shown in Table 1 and Table 2 below).

Table 1: Traffic volume of the Shanghai-Hangzhou-Ningbo Expressway for the first half of 1999

Period	Weighted average daily full trip traffic volume									
	Shanghai-Hangzhou Expressway					Shanghai-Hangzhou Expressway				
	Shanghai-Ningbo Expressway (247.6km)		Hangzhou-Ningbo Expressway (145km)		Hangzhou section (3.4km)		Yuhang section (11.1km)		Jiaxing section (88.1km)	
	vehicles per day	YoY%	vehicles per day	YoY%	vehicles per day	YoY%	vehicles per day	YoY%	vehicles per day	YoY%
January	12,559	27.1	13,211	37.7	21,259	68.8	21,259	68.8	10,151	—
February	11,688	20.7	11,685	25.0	18,782	45.7	18,447	43.1	10,589	—
March	13,687	23.4	13,594	27.3	24,508	61.5	23,814	56.9	12,182	—
April	15,062	23.9	14,653	25.2	26,791	61.6	26,123	57.6	13,878	—
May	14,474	26.0	14,046	27.0	25,504	63.3	24,940	59.7	13,422	—
June	14,066	24.9	13,749	26.8	24,043	56.1	23,469	52.4	13,007	—
Average	13,610	24.4	13,512	28.1	23,538	59.9	23,065	56.6	12,218	—

Table 2: Toll revenue of the Shanghai-Hangzhou-Ningbo Expressway for the first half of 1999

Period	Monthly toll revenue									
	Shanghai-Hangzhou Expressway					Shanghai-Hangzhou Expressway				
	Shanghai-Ningbo Expressway (247.6km)		Hangzhou-Ningbo Expressway (145km)		Hangzhou section (3.4km)		Yuhang section (11.1km)		Jiaxing section (88.1km)	
	RMB'000	YoY%	RMB'000	YoY%	RMB'000	YoY%	RMB'000	YoY%	RMB'000	YoY%
January	67,210	81.1	41,398	28.9	1,836	42.1	5,816	56.2	18,160	—
February	55,593	61.4	33,415	12.4	1,365	12.3	4,332	23.7	16,481	—
March	75,435	72.1	44,440	18.3	2,104	30.4	6,587	41.7	22,304	—
April	79,234	72.6	45,683	16.2	2,205	29.9	6,920	41.4	24,426	—
May	78,477	75.8	44,913	17.5	2,164	30.8	6,820	3.0	24,580	—
June	73,131	76.4	42,024	18.6	1,947	25.1	6,123	36.5	23,805	—
Total	429,080	73.5	251,873	18.7	11,621	28.7	36,598	40.6	129,756	—

The Directors believe that the outstanding performance in growth rates for traffic volume and toll revenue on the Shanghai-Hangzhou-Ningbo Expressway for the Period was principally attributable to the following:

- the economy in Zhejiang Province has maintained a steady growth momentum, with a GDP growth rate of approximately 10.1 per cent. during the Period;
- a network effect was created when the Shanghai-Hangzhou-Ningbo Expressway became fully operational;
- more people have opted to use the Shanghai-Hangzhou-Ningbo Expressway to travel to Zhejiang for tourism and vacations; and
- road conditions and service qualities have improved.

Toll adjustment

Pursuant to the concession agreement dated 24th March, 1997 between Zhejiang Department of Communications (under a power of attorney from the Zhejiang Provincial Government) and the Company, the Company submitted a toll adjustment application to the Zhejiang Provincial Government on 17th May, 1999 (the "Toll Adjustment Application") to adjust the toll rates applicable to the Shanghai-Hangzhou-Ningbo Expressway. In arriving at its Toll Adjustment Application, the Company took into account various factors including the preceding three years (1996, 1997 and 1998) figures of the PRC national retail price index, the current macro economic conditions, the growth trend in traffic volume of, and the constitution of the various classes of vehicles using, the Shanghai-Hangzhou-Ningbo Expressway. Pursuant to the Toll Adjustment Application, only the mileage fee for Class 1 vehicles (which includes cars, buses with seating capacities of under 20 persons, and trucks of less than two tons) was adjusted, increasing from RMB40 cents per kilometer per vehicle to RMB45 cents per kilometer per vehicle. The Zhejiang Provincial Government approved the Toll Adjustment Application on 28th June, 1999, and the new toll rates took effect from 1st July, 1999.

The Directors believe that the new toll rates will serve to improve traffic mix on the Shanghai-Hangzhou-Ningbo Expressway, thereby having a positive effect on traffic volume.

Operation and traffic management system of the Hangzhou-Ningbo Expressway

The new toll collection system under Contract No.8 (the contract relating to upgrading the toll collection system and introduction of traffic monitoring, communications and lighting systems on the Hangzhou-Ningbo Expressway) is currently undergoing tests for reliability, and is expected to be completed and operational by the end of 1999. The traffic monitoring, communications and lighting systems have already been installed and are fully operational.

Hangzhou-Ningbo Expressway widening project

In order to increase capacity of the Hangzhou-Ningbo Expressway, the Company plans to widen the section between Hongken in the Xiaoshan area and Guzhu in the Shaoxing area (the "Section", approximately 44km in length) from four lanes to six lanes later this year. The main factors taken into consideration by the Company include the following: (1) that the traffic volume on the Section is currently high; and (2) Hangzhou City Ring-Road, Hangzhou-Jinhua-Quzhou Expressway, Xiaoshan International Airport Road and Shangshan Expressway, all of which are connected to the Section and are expected to be operational around 2003.

The Hangzhou-Ningbo Expressway widening project (the "Project") will demand funding of approximately RMB400,000,000, which will be financed by the Company's internal resources and/or domestic bank loans. The Directors expect the Project to commence before the end of 1999 and to be completed in 2004. This is to ensure that sufficient settling time is given to safeguard the quality of the Project as the Section is situated on soft soil, and that the Section will be operational in conjunction with the rest of the connecting roads, thereby benefiting from the future growth in traffic volume.

(2) Shangshan Expressway

Traffic volume and toll revenue

The traffic volume on the Shangshan Expressway (formerly known as "Shangyu-Sanmen Highway") increased by 10.8 per cent. over that of the same period last year to 7,222 vehicles per day during the Period, while toll revenue from its operational sections increased by 10.3 per cent. over that of the same period last year to approximately RMB48,367,000.

Construction in progress

As at 30th June, 1999, the completed construction works of phase II of the Shangshan Expressway amounted to approximately 63 per cent. of the total contract value of RMB1,613,371,780.

Xinchang Acquisition

The Company entered into a sale and purchase agreement on 28th June, 1999 to purchase a 4 per cent. ownership interest in Shangshan Co (the "Xinchang Acquisition") from Xinchang County Transport Development Company ("Xinchang Transport") for a total consideration of RMB114,080,000 in cash (the "Xinchang Purchase Consideration"). After the completion of the Xinchang Acquisition, the Company's ownership interest in the Shangshan Co increased from 51 per cent. to 55 per cent. while Xinchang Transport's ownership interest in the Shangshan Co decreased from 6 per cent. to 2 per cent. The rest of the ownership interests in Shangshan Co are owned as to approximately 18.4 per cent. by Huajian Transportation Economic Development Center, 7 per cent. by Tiantai County Transport Development Company, approximately 6.6 per cent. by Zhejiang Provincial High Class Highway Investment Company Limited, 6 per cent. by Shangyu Municipal Transport Bureau, and 5 per cent. by Shengzhou Municipal Transport Bureau.

Given that Xinchang Transport is a promoter of Shangshan Co and as such is a connected person of the Company for the purposes of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"), the Xinchang Acquisition constituted a connected transaction of the Company under rule 14.25 of the Listing Rules. However, since the Xinchang Purchase Consideration represented less than three per cent. of the book value of the net tangible assets of the Company as disclosed in its then latest published accounts, no shareholder approval was required for the approval of the Xinchang Acquisition.

(3) Petroleum Co

The Company has a 50 per cent. ownership interest in Petroleum Co, an associated company, which is principally engaged in the investment in, construction and operation of, gas stations along high grade roads in Zhejiang Province and the sale of petroleum products. During the Period, Petroleum Co achieved satisfactory operating results and the Company's share of the profits of Petroleum Co amounted to RMB10,028,000. As at the 30th June, 1999, the number of gas stations operated by the Petroleum Co had increased to 78 from 65 when it was established on 1st July, 1998.

Petroleum Co plans to continue to expand its market, diversify sales, and improve the quality of its investments by completing its layout of gas stations network throughout Zhejiang Province, developing 10 additional gas stations within cities, in suburbs and along high grade roads, and reconstructing 20 standardised gas stations before the end of 1999.

(4) Advertising Co

By capitalising the Group's access to expressways, Advertising Co had an encouraging and active start in developing its bill board advertising agency business during the Period.

4. OUTLOOK

In light of the favorable macro economic environment and the Company's business growth momentum during the Period, the Directors are confident of the Company's prospects for the second half of 1999. In order to achieve targets and to lay down a firm foundation for stepping into the new millennium, the Company will, during the second half of 1999, focus on the following:

- continuing to take active marketing measures to attract traffic flow; participating in the "model road" quality programme in respect of the Shanghai-Hangzhou-Ningbo Expressway to improve its internal management standard and service qualities so as to better serve the needs of road users; improving road maintenance to ensure satisfactory road conditions; and making preparations for widening of certain sections of the Shanghai-Hangzhou-Ningbo Expressway from four lanes to six lanes to increase capacity for future growth in traffic volume;
- continuing to search for toll road and bridge projects with high quality and favourable returns within Zhejiang Province; and
- exploring an effective incentive system, and endeavouring to link the management's remuneration with the Company's operating results, achievement of its long term targets and the performance of the Company's share prices.

5. USE OF IPO PROCEEDS

The net proceeds from the Company's initial public offering and placing of H shares (the "IPO proceeds") amounted to a total of approximately RMB3,524 million. Details of the Company's applications of such proceeds up to 30th June, 1999 are set out below:

- approximately RMB534.45 million was applied as capital contribution to Jiaxing Co for completing construction works of the Jiaxing Section
- approximately RMB5.34 million was used in relation to Contract No. 8
- approximately RMB637.48 million was used toward repayment of loans and payment of interest
- approximately RMB29.4 million was used to purchase approximately 2.44 per cent. of the registered capital of Jiaxing Co
- at the time of the Company's listing on the Hong Kong Stock Exchange, approximately RMB900 million was reserved for the potential investment in the Huzhou Section of the Hangzhou-Nanjing Expressway. However, after looking into this project further and considering that: (1) it was expected that the entire Hangzhou-Nanjing Expressway would not be completed and open to traffic in the next few years; and (2) the Jiaxing Section (and the entire Shanghai-Hangzhou-Ningbo Expressway) would be opened to traffic in December 1998 and start generating income, the Company decided to use this portion of the IPO proceeds to purchase a further interest of approximately 30.748 per cent. in Jiaxing Co (the "Acquisition") instead. The total consideration for the Acquisition was approximately RMB914.7 million and was funded entirely by the IPO proceeds
- approximately RMB38 million was used as capital contribution to Petroleum Co
- approximately RMB930.75 million was used as capital contribution to Shangshan Co, the balance of the capital contribution in the sum of approximately RMB293.25 million is expected to be paid during the second half of 1999 and first half of 2000

As at 30th June, 1999, approximately 87.7 per cent. of the IPO proceeds have been invested in the above-mentioned projects, and the remaining balance of the IPO proceeds of approximately RMB433.88 million was deposited in commercial banks in the PRC and invested in short term investments.

6. EFFECT OF RECENT REGIONAL ECONOMIC DEVELOPMENTS ON THE BUSINESS OF THE COMPANY

Since the beginning of the year 1999, the PRC economy has been growing at a steady pace. National GDP growth rate of the PRC for the first half of 1999 was approximately 7.6 per cent., while the GDP growth rate during the same period in Zhejiang Province was approximately 10.1 per cent., which is higher than the national average. Benefiting from a strong local economy, expressways operated by the Company have enjoyed excellent growth in traffic volume. Despite the fact that the national retail price index has remained negative for more than 20 months consecutively, the Zhejiang Provincial Government, nevertheless, approved the Company's Toll Adjustment Application for an increase in the toll rates of the Shanghai-Hangzhou-Ningbo Expressway, reflecting its strong support for the Company.

After the opening of the entire Shanghai-Hangzhou-Ningbo Expressway, local governments have begun to set up economic development zones near the expressway's entrances and exits, as well as near its connecting roads. This will further enhance the growth in traffic volume on the Shanghai-Hangzhou-Ningbo Expressway.

As interest rates were lowered again during the Period, domestic funding costs were reduced substantially, making it easier for the Company to obtain loans from domestic banks.

7. YEAR 2000 COMPLIANCE

The Group has made disclosure regarding Year 2000 compliance and the measures taken to deal with related potential problems in its 1998 interim report and annual report.

The revenue of the Group is principally derived from toll collection, which are cash transactions, and the computation of the amount of toll payable is based on the distance travelled by each vehicle using the expressway irrespective of time. A contingency plan is already in place to convert the process of computerised toll collection into manual operation so as to minimise any interruption to the traffic flow on expressways operated by the Group should the circumstances demand.

Since the internal reviews and correction works on computer programs are carried out by the Group's own technicians, no additional cost and expense relating to the Year 2000 compliance was incurred during the Period or is expected to be incurred in the future.

As at 30th June, 1999, all computer systems of the Group have already been comprehensively tested Year 2000 compliant. Thus, in view of the effort of, and measures taken by, the Group, as disclosed in the Company's 1998 interim report and annual report, the Directors consider the Group's exposure to the Year 2000 problem to be insignificant.

8. OTHER MATTERS

(1) Purchase, sale and redemption of the Company's shares

Neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's shares during the Period.

(2) Employee housing scheme

According to the relevant rules and regulations in the PRC, the Group and its employees are required to contribute to an accommodation fund, a certain percentage of the salaries and wages of its employees. There are no further obligations beyond the contribution to the accommodation fund. In December, 1998, the Company purchased and fully paid for RMB19 million worth of apartments, and plans to sell these apartments later this year to eligible staff at a discount of approximately 80 per cent., subject to any relevant housing reform policies. The Company made provision for the eventual estimated loss on their disposal of RMB15.3 million in 1998. Save as disclosed above, the Company did not own or sell any apartments to its employees during the Period.

(3) Deposits

As at 30th June, 1999, the Group did not have any designated deposits or overdue time deposits with any non-bank financial institutions in the PRC.

9. CODE OF BEST PRACTICE

The Directors has not established an audit committee (the "Audit Committee") to review and supervise the Company's financial reporting process and internal controls pursuant to paragraph 14 of Code of Best Practice set out in Appendix 14 to the Listing Rules (the "Code of Best Practice"). However, the Company's organisational structure has, in lieu, a Supervisory Committee which carries out functions similar to that of an Audit Committee, the differences being that the Company's Supervisory Committee comprises three representatives (one of which shall be an employee of the Company) who are elected and removed in the general meeting of shareholders, and which reports to the general meeting of shareholders instead of the Board of Directors, whereas an Audit Committee is appointed amongst the non-executive directors of a company. Apart from this, none of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the Period, in compliance with the Code of Best Practice.

By Order of the Board
Xiaoping Geng
Chairman