



# 浙江滬杭甬高速公路股份有限公司

## ZHEJIANG EXPRESSWAY CO., LTD.

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

### ANNOUNCEMENT OF 1998 INTERIM RESULTS

The unaudited consolidated operating results of Zhejiang Expressway Co., Ltd. (the "Company") and its subsidiaries (the "Group") for the six months ended 30th June, 1998 (the "Period"), prepared in conformity with the generally accepted accounting principles adopted in Hong Kong (the "Hong Kong GAAP"), are as follows:

#### 1. PROFIT AND LOSS ACCOUNT

(Unaudited)

|  | Notes | For the six months ended 30th June, 1998 |               | 1997 |
|--|-------|--|---------------|------|
|  |       | RMB'000                                  | RMB'000       |      |
| Turnover                                     | 2     | 305,296                                  | 222,662       |      |
| Operating profit                             |       | 231,728                                  | 129,033       |      |
| Exceptional items                            | 3     | —  | 26,054        |      |
| Profit before taxation                       |       | 231,728                                  | 155,087       |      |
| Taxation                                     | 4     | (37,932)                                 | (23,263)      |      |
| Profit after taxation                        |       | 193,796                                  | 131,824       |      |
| Minority interests                           |       | (29,446)                                 | (6,595)       |      |
| Profit after taxation and minority interests |       | 164,350                                  | 125,229       |      |
| Profit attributable to shareholders          |       | 164,350                                  | 105,143       |      |
| Interim dividend                             |       | —  | —             |      |
| Earnings per share                           | 6     | RMB3.78 cents                            | RMB3.15 cents |      |

Notes:

#### 1. The Group

The Company was incorporated as a joint stock limited company in the People's Republic of China (the "PRC") on 1st March, 1997. On 15th May, 1997, the H Shares of the Company were listed on The Stock Exchange of Hong Kong Limited. The Company is principally engaged in investing in, constructing and managing high grade roads in the PRC. In addition, the Company has the right to develop and operate certain ancillary services such as automobile servicing, fuel facilities and billboard advertising.

The Group has been granted the rights to construct, operate and collect toll for a period of 30 years in respect of the Shanghai-Hangzhou-Ningbo Expressway. The Company holds a 51 per cent. interest in the capital of Zhejiang Yuhang Expressway Company Limited ("Yuhang Co"), which in turn owns the Yuhang section of the Shanghai-Hangzhou Expressway, and an approximately 53.44 per cent. interest in the capital of Zhejiang Jiaying Expressway Company Limited ("Jiaying Co"), which in turn owns the Jiaying section of the Shanghai-Hangzhou Expressway. The other sections of the Shanghai-Hangzhou-Ningbo Expressway in Zhejiang Province are wholly owned by the Company.

On 3rd November, 1997, the Company established a joint venture company, Zhejiang Gaotong Stone Developing Company Limited ("Gaotong Co"), with a registered capital of RMB 5 million, in which the Company has an 80 per cent. interest. Gaotong Co is principally engaged in processing and selling stones and stone related products for interior decoration purposes.

On 1st January, 1998, the Company established a joint venture company, Zhejiang Shangsang Highway Company Limited ("Shangsang Co"), with a registered capital of RMB2,400 million, in which the Company has a 51 per cent. interest, for the purposes of investing in, constructing and operating the Shangyu-Sanmen Road for a period of 30 years and acquiring the operational sections of Shangyu-Sanmen Road. Shangyu-Sanmen Road is a Class I Road with a total length of 143 km upon completion.

On 1st June, 1998, the Company set up a joint venture company, Zhejiang Expressway Advertising Company Limited ("Advertising Co"), with a registered capital of RMB 1 million, in which the Company has a 70 per cent. interest.

#### 2. Turnover

Turnover represents mainly income from the Group's toll road operations, net of relevant revenue taxes. The gross turnover for the six months ended 30th June, 1997 was approximately RMB235,635,000.

#### 3. Exceptional items

Profit arising from exceptional items for the first half of 1997 represented interest income from deposit of over subscription monies for the H Shares of the Company in its initial public offering. No exceptional item was recorded for the first half of 1998.

#### 4. Taxation

(1) Under PRC laws and regulations, enterprises are generally subject to Enterprise Income Tax (the "EIT") at the rate of 33 per cent. of their assessable income. Pursuant to the notice from the Zhejiang Provincial Government in 1997, the Company is entitled to a refund in an amount equal to 18 per cent. of the Company's assessable income for the purpose of EIT. Yuhang Co, Jiaying Co and Shangsang Co also enjoy similar refunds pursuant to notices issued by the Yuhang Municipal Government, the Jiaying Municipal Government and the Zhejiang Provincial Government respectively. However, there is no assurance that the Company and these subsidiaries will continue to enjoy such refunds in the future. Gaotong Co and Advertising Co do not enjoy such refunds.

(2) 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.

#### 5. Transfer to reserves

No retained profits was transferred to any reserves for the six months ended 30th June, 1998.

#### 6. Earnings per share

(1) The calculation of earnings per share for the first half of 1997 was based on the pro forma profit after taxation, minority interests and exceptional items, and 3,273,665,011 shares (being the weighted average of 2,909,260,000 domestic shares assumed to have been issued on 1st January, 1997 and 1,433,854,500 H Shares issued on 15th May, 1997).

(2) The calculation of earnings per share for the first half of 1998 was based on the profit after taxation and minority interests, and 4,343,114,500 shares in issue throughout the Period (being the total amount of issued shares of the Company).

#### 7. 1997 Interim results

The Company was incorporated as a joint stock limited company in the PRC on 1st March, 1997. The Group's unaudited interim results for the six months ended 30th June, 1997 were pro forma operating results prepared on the assumption that the structure of the Group as of 1st March, 1997 had been in existence throughout the six months ended 30th June, 1997.

#### 2. INTERIM DIVIDEND

The Directors have resolved not to declare an interim dividend for the Period.

#### 3. BUSINESS REVIEW

The Group's unaudited profit after taxation and minority interests for the Period was RMB164.35 million, representing an increase of 31.24 per cent. compared with that of the same period in 1997 on a pro forma basis. The Directors are satisfied with the results for the Period and would like to make a brief statement on the operations of the Group for the Period.

#### Shanghai-Hangzhou-Ningbo Expressway

The Shanghai-Hangzhou-Ningbo Expressway has a total length of 247.6 km, of which 158.2 km was open to traffic in December 1996 and has been generating toll revenue since then. After one and a half year's operation, it has entered into a period of substantial growth. The weighted average daily full trip

traffic flow increased by 19.5 per cent. to 10,940 vehicles per day during the Period when compared with the same period in last year, while toll revenue increased by 16.5 per cent. to approximately RMB247.29 million.

Table 1: Traffic volume of the Shanghai-Hangzhou-Ningbo Expressway for the first half of 1998

| Period   | Weighted average daily full trip traffic flow  |      |                                     |      |  |      |  |      |
|----------|--|------|-------------------------------------|------|--|------|--|------|
|          | Shanghai-Hangzhou-Ningbo Expressway (158.2 km) |      | Hangzhou-Ningbo Expressway (145 km) |      | Shanghai-Hangzhou Expressway Hangzhou section (3.4 km) |      | Shanghai-Hangzhou Expressway Yuhang section (9.8 km) |      |
|          | vehicles per day                               | Yo1% | vehicles per day                    | Yo1% | vehicles per day                                       | Yo1% | vehicles per day                                     | Yo1% |
| January  | 9,881  | 5.6  | 9,593                               | 4.1  | 12,592   | 20.6 | 12,592   | 20.6 |
| February | 9,683  | 35.6 | 9,350                               | 32.4 | 12,892   | 67.3 | 12,892   | 67.3 |
| March    | 11,096   | 17.4 | 10,678                              | 15.2 | 15,178   | 37.4 | 15,178   | 37.4 |
| April    | 12,159   | 20.9 | 11,707                              | 18.4 | 16,574   | 44.9 | 16,574   | 44.9 |
| May      | 11,485   | 17.6 | 11,061                              | 15.0 | 15,614   | 41.9 | 15,614   | 41.9 |
| June     | 11,264   | 25.3 | 10,841                              | 23.7 | 15,402   | 38.8 | 15,402   | 38.8 |
| Average  | 10,940   | 19.5 | 10,550                              | 17.3 | 14,725   | 40.3 | 14,725   | 40.3 |

Table 2: Toll revenue of the Shanghai-Hangzhou-Ningbo Expressway for the first half of 1998

| Period   | Monthly toll revenue                           |      |                                     |      |  |      |  |      |
|----------|--|------|-------------------------------------|------|--|------|--|------|
|          | Shanghai-Hangzhou-Ningbo Expressway (158.2 km) |      | Hangzhou-Ningbo Expressway (145 km) |      | Shanghai-Hangzhou Expressway Hangzhou section (3.4 km) |      | Shanghai-Hangzhou Expressway Yuhang section (9.8 km) |      |
|          | RMB'000  | Yo1% | RMB'000                             | Yo1% | RMB'000  | Yo1% | RMB'000  | Yo1% |
| January  | 37,104   | -3.3 | 32,089                              | -5.9 | 1,292  | 16.7 | 3,723  | 16.7 |
| February | 34,423   | 37.2 | 29,705                              | 32.6 | 1,215  | 76.0 | 3,503  | 76.0 |
| March    | 43,809   | 16.2 | 37,546                              | 13.0 | 1,613  | 39.9 | 4,650  | 39.9 |
| April    | 45,875   | 18.4 | 39,283                              | 14.7 | 1,698  | 46.3 | 4,894  | 46.3 |
| May      | 44,625   | 15.8 | 38,202                              | 12.0 | 1,654  | 45.1 | 4,769  | 45.1 |
| June     | 41,452   | 22.5 | 35,410                              | 20.1 | 1,556  | 38.3 | 4,486  | 38.3 |
| Total    | 247,288  | 16.5 | 212,235                             | 13.2 | 9,028  | 41.6 | 26,025   | 41.6 |

#### Hangzhou-Ningbo Expressway

The 145 km Hangzhou-Ningbo Expressway is wholly-owned by the Company. In the first half of 1998, the weighted average traffic flow increased by 17.3 per cent. to 10,550 vehicles per day while toll revenue amounted to approximately RMB212.24 million representing a 13.2 per cent. increase over that of the same period in 1997.

#### Shanghai-Hangzhou Expressway

##### — Hangzhou Section

The Hangzhou section, with a length of 3.4 km, connects the Shanghai-Hangzhou Expressway with the Hangzhou-Ningbo Expressway and is wholly-owned by the Company. There is no toll station in this section. Toll revenue attributable to this section is calculated by reference to a proportion being the length of the section bears to the total length of the operational sections of the Shanghai-Hangzhou Expressway. During the Period, toll revenue attributable to this section amounted to approximately RMB9.03 million, representing an increase of 41.6 per cent. over that of the first half of 1997.

##### — Yuhang Section

The total length of the Yuhang section is 11.1 km, of which 9.8 km is operational at present. The remaining 1.3 km of the Yuhang section is expected to be open to traffic in December 1998, the same time that the Jiaying section of the Shanghai-Hangzhou Expressway is expected to be operational. This section is owned by Zhejiang Yuhang Expressway Company Limited ("Yuhang Co"), in which the Company has a 51 per cent. interest. Yuhang Co also has an interest in the East Connecting Road which is 5.7 km in length and connects the National Road 320 with the Yuhang section. During the Period, toll revenue generated by the Yuhang section and the East Connecting Road amounted to approximately RMB45.72 million, representing an increase of 32.3 per cent. over that of the first half of 1997.

##### — Jiaying Section

The Jiaying section is 88.1 km in length and is currently under construction. This section is owned by Zhejiang Jiaying Expressway Company Limited ("Jiaying Co"), in which the Company has an approximately 53.44 per cent. interest. The Jiaying section is expected to be completed and open to traffic in December this year.

#### Shangyu-Sanmen Road

The Shangyu-Sanmen Road is a Class I Road which, upon completion, will run from the Guzhu Interchange on the Hangzhou-Ningbo Expressway to Wu'ao Interchange on the Ningbo-Taizhou-Wenzhou Expressway. The total investment of the Shangyu-Sanmen Road, with a total length of 143 km, is estimated to be RMB 4,290 million. Four short sections with a total length of 37.5 km are operational at present, and the toll revenue generated by these sections amounted to approximately RMB43.86 million in the first half of 1998. The construction of the remaining parts of the Shangyu-Sanmen Road commenced in February 1998 and is expected to be completed and open to traffic in early 2001.

The Shangyu-Sanmen Road is owned by Zhejiang Shangsang Highway Company Limited ("Shangsang Co") which was established in the PRC on 1st January, 1998. Shangsang Co has a registered capital of RMB 2,400 million, of which RMB 1,224 million was contributed by the Company. The Company owns a 51 per cent. interest in the capital of Shangsang Co.

#### 4. PROSPECTS FOR THE SECOND HALF OF 1998

On the basis of the traffic volume and growth trend of the Shanghai-Hangzhou-Ningbo Expressway during the Period when compared with those of the same period in 1997, the Company is confident of the increase in the traffic flow during the second half of the year.

The Company will adopt new operation systems for toll collection and monitoring traffic and new communications and lighting systems for the Hangzhou-Ningbo Expressway by the end of the year. The Company believes the new systems will provide more effective management and help to ensure the safety of the users of the expressway.

Construction of Shanghai-Hangzhou Expressway progresses as scheduled and the Company is confident that the rest of Shanghai-Hangzhou Expressway will be open to traffic in December 1998. At present, the road travel time between Shanghai and Hangzhou is between approximately 3 to 4 hours, which the Company estimates will be reduced to approximately one and a half hours after the opening of the entire Shanghai-Hangzhou Expressway. On that basis, the Company expects that the traffic volume of the entire Shanghai-Hangzhou-Ningbo Expressway will increase substantially.

Application for toll adjustment will be submitted by the Company to the Zhejiang Provincial Government in the first half of 1999. The Company will engage professional traffic consultants to evaluate the optimum level of toll increase. The toll adjustment proposal will be based on the opinion of such professional traffic consultants.

The Company and Zhejiang Huajiang Petroleum Company Limited, an independent third party, established Zhejiang Expressway Petroleum Development Company Limited ("Petroleum Co") on 1st July, 1998 with a

registered capital of RMB 416 million. Petroleum Co is principally engaged in constructing, operating and investing in gas stations along high grade roads and other roads in Zhejiang Province (with 26 gas stations in operation and 7 gas stations under construction at present) and the sale of petroleum products. The gas stations are operated under the ZJSY (浙江石油) brand. Petroleum Co intends to expand its gas station chain by constructing new gas stations and acquiring existing operating gas stations in Zhejiang Province. The Company has a 50 per cent. interest in Petroleum Co and accordingly, Petroleum Co will be treated as its associated company. The Company has paid its capital contribution of RMB208 million in full. The Directors expect that Petroleum Co will provide a satisfactory investment return by the end of this year.

The Company will continue to implement its policy of maximising the returns of its businesses, in particular its toll road operations. Furthermore, the Company will also continue to pursue investment opportunities in toll road and other road or transportation related projects and ancillary facilities with a view to broadening its earnings base.

#### 5. USE OF IPO PROCEEDS

During the Period, a total of approximately RMB394.7 million from the proceeds of the initial public offering and placing of H shares of the Company ("IPO") was used in accordance with the proposed applications of proceeds as disclosed in the prospectus of the Company dated 6th May, 1997. Details of the applications of such amount are set out below:

|   | RMB million  |
|---|--------------|
| 1. Capital contribution to Jiaying Co     | 240.5        |
| 2. Capital contribution to Shangsang Co   | 58.7         |
| 3. Capital contribution to Petroleum Co   | 38.0         |
| 4. Repayment of loan and interest payment | 57.5         |
| <b>Total</b>                              | <b>394.7</b> |

As at the end of the Period, the remainder of the proceeds of the IPO was approximately RMB1,913.9 million, which amount was in part deposited with banks and other financial institutions in the PRC and in part invested in treasury bonds issued by the PRC Government, and the proposed applications of such amount were as follows:

|  | RMB million    |
|--|----------------|
| 1. Capital contribution to Jiaying Co  | 133.6          |
| 2. Capital contribution to Shangsang Co  | 527.8          |
| 3. Investment in the Huzhou section of the Hangzhou-Nanjing Expressway and the related National Road 104                   | 900.0          |
| 4. Payment under Contract No.8 for the purpose of upgrading the traffic operation system of the Hangzhou-Ningbo Expressway | 146.0          |
| 5. Working capital   | 206.5          |
| <b>Total</b>   | <b>1,913.9</b> |

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

Since the third quarter of 1997, the economic conditions of many Asian countries have deteriorated dramatically. However, the Asian economic crisis has not materially affected the PRC economy due to the stability of the value of Renminbi and the fact that interest rates in the PRC are at historically low levels. Since substantially all of the revenue of the Group is derived from its toll road business in the PRC, the revenue and profit of the Group have not been negatively affected by the Asian economic crisis. In addition, the PRC Government encourages investment in infrastructure sectors such as the road, power and telecommunications sectors so as to stimulate the domestic economy. The Company believes that this policy will provide the Company with more investment opportunities.

Though the Asian financial turmoil has put devaluation pressure on Renminbi, the PRC Government has, on various occasions, indicated that Renminbi will not devalue in the near future. However, should Renminbi devalue in the future, depending on the extent of such devaluation, the profitability of the Group may be adversely affected.

#### 7. YEAR 2000 COMPLIANCE

In order to ensure that the Group's computer systems involved in its operations will be Year 2000 compliant before the turn of the century, the Group's management commenced a review of all the issues that may stem from the Year 2000 Problem in relation to the Group's operations in late 1997. Two Executive Directors and senior staff members from the finance and operation departments have been assigned to assess the potential impact of the Year 2000 Problem on the operations of the Group. An action plan was formulated with particular emphasis being placed on the operational and financial systems of the Group. The internal review was completed in June, 1998.

Toll collection and the related data processing and financial management are the principal areas of the daily operations of the Group which require the use of operating computer systems. The Group's computer systems were all purchased after mid 1990's and were of the latest models which do not record years by the last two digits. To ensure that these computer systems are Year 2000 compliant, the Group has obtained letters of confirmation in this regard from the suppliers of these computer systems. In addition, the Group will perform comprehensive testing on all of its computer systems so as to ensure that they are Year 2000 compliant before the end of 1998. In the absence of unforeseen circumstances, the Directors are confident that the Group's computer systems will be tested Year 2000 compliant by mid 1999. As a result of the efforts of, and the measures taken by the Group as aforesaid, the Directors consider the Group's exposure to the Year 2000 Problem to be insignificant. The costs and expenses incurred in connection therewith are immaterial to the financial position, results of operations or cash flows of the Group. Further details in this relation will be included in the interim report of the Company which will be despatched to the shareholders of the Company as soon as practicable.

#### 8. DISCLOSURE OF INTERESTS AND OTHER MATTERS

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

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

##### (b) Employee housing scheme

At present, the Company does not provide staff quarters for its employees. The Company is currently considering whether the establishment of a housing scheme for its employees would be beneficial to the Company as a whole, and no decision in relation thereto has yet been made nor has any preliminary proposal been adopted for that purpose.

#### 9. CODE OF BEST PRACTICE

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 set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Geng Xiaoping  
Chairman

Hangzhou, the PRC, 10th August, 1998