



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
 (the "PRC") with limited liability)

1998 RESULTS ANNOUNCEMENT

The board of directors of Zhejiang Expressway Co., Ltd. (the "Company") is pleased to announce the audited results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31st December, 1998 (the "Period"), prepared in conformity with the accounting principles generally accepted in Hong Kong and the basis of presentation as stated in note 1 below, together with the 1997 comparative figures as follows:

FINANCIAL HIGHLIGHTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		10 months from 1st March, 1997 (date of establishment of the Company) to 31st December, 1997		Pro forma figures for the year ended 31st December, 1997
	Notes	Year ended 31st December, 1998 RMB'000	RMB'000	RMB'000
TURNOVER	2	623,614	376,785	439,789
OPERATING PROFIT BEFORE EXCEPTIONAL ITEM		505,609	329,044	346,871
EXCEPTIONAL ITEM		—	25,355	25,355
OPERATING PROFIT		505,609	354,399	372,226
SHARE OF PROFIT OF AN ASSOCIATED COMPANY		18,982	—	—
PROFIT BEFORE TAXATION		524,591	354,399	372,226
TAXATION	3	(70,419)	(53,085)	(58,639)
PROFIT BEFORE MINORITY INTERESTS		454,172	301,314	313,587
MINORITY INTERESTS		(68,914)	(15,986)	(17,255)
NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS		385,258	285,328	296,332
RETAINED PROFITS AT BEGINNING OF YEAR/PERIOD		170,585	—	—
TRANSFERRED TO RESERVES	4	(75,656)	(45,253)	—
DIVIDENDS	5	(152,009)	(69,490)	—
RETAINED PROFITS AT END OF YEAR/PERIOD		328,178	170,585	—
EARNINGS PER SHARE	6	8.87 cents	7.15 cents	7.77 cents

Notes:

1. Basis of presentation

The consolidated profit and loss account shows the operating results of the Group for the year ended 31st December, 1998. The 1997 pro forma figures were prepared on the bases set out in the Report of the Directors contained (on page 25) in the 1997 annual report of the Company.

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

An associated company is a company, not being a subsidiary, in which the Group has a long term interest of not less than 20 per cent. of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of an associated company is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investment in an associated company is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for permanent diminutions in values deemed necessary by the directors of the Company.

The results of an associated company are included in the Company's profit and loss account to the extent of dividends received. The Company's investment in an associated company is stated at cost less any provision for diminutions in values deemed necessary by the directors.

As at 31st December, 1998, the particulars of the Company's subsidiaries and associated company are as follows:

Name	Date and place of registration	Equity interest attributable to the Company	Registered capital (RMB'000)	Principal business
Subsidiaries				
Zhejiang Jiaying Expressway Co., Ltd. ("Jiaying Co")	30th June, 1994 PRC	84.2%	1,859,200	Construction, operation and management of the Jiaying Section of the Shanghai-Hangzhou Expressway
Zhejiang Yuhang Expressway Co., Ltd. ("Yuhang Co")	7th June, 1994 PRC	51.0%	75,223	Construction, operation and management of the Yuhang Section of the Shanghai-Hangzhou Expressway
Zhejiang Shangsang Expressway Co., Ltd. ("Shangsang Co")	1st January, 1998 PRC	51.0%	2,400,000	Construction, operation and management of the Shangyu-Sanmen Road
Zhejiang Expressway Advertising Co., Ltd.	1st June, 1998 PRC	70.0%	1,000	Advertising
Zhejiang Gaotong Stone Development Co., Ltd.	3rd November, 1997 PRC	80.0%	5,000	Processing and sale of stones and stone related products
Associated company				
Zhejiang Expressway Petroleum Development Co., Ltd. ("Petroleum Co")	1st July, 1998 PRC	50.0%	416,000	Operation of gas stations and sale of petroleum related products

The consolidated profit and loss account has been prepared in accordance with the Hong Kong Statements of Standard Accounting Practice ("HKSSAP"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. This basis of accounting differs from that used in the preparation of the statutory accounts of the Group which were prepared in accordance with the relevant accounting principles and financial regulations applicable to PRC enterprises.

2. Turnover

Turnover represents toll revenue generated from operation of expressways, net of relevant revenue taxes.

	10 months from 1st March, 1997 (date of establishment of the Company) to 31st December, 1997	
	1998 RMB'000	RMB'000
Toll income	658,505	398,468
Less: Revenue taxes (Note)	(34,891)	(21,683)
	623,614	376,785

Note:

The Group is subject to the following types of revenue taxes:

- Business tax ("BT") levied at 5% of toll revenue;
- City Development Tax levied at 1%-7% of BT; and
- Education Supplementary Tax levied at 3.5%-4% of BT.

3. Taxation

No provision for Hong Kong profits tax has been made in the results for the Period as the Group had no taxable profit in Hong Kong during the Period.

The Group is subject to PRC Enterprise Income Tax at the rate of 33 per cent. on its taxable income (based on income for financial reporting purposes prepared in accordance with the PRC laws and regulations).

Pursuant to the relevant notices from the Zhejiang Provincial Government, Jiaying Municipal Government and Yuhang Municipal Government, the Company and three of its subsidiaries namely, Jiaying Co, Yuhang Co and Shangsang Co, are entitled to a refund from Zhejiang Finance Bureau or Municipal Finance Bureaus of Yuhang and Jiaying, respectively of amount equal to 18 per cent. of each such company's taxable income commencing from 1st March, 1997, 15th May, 1997, 15th May, 1997, and 1st January, 1998 respectively. There is no assurance that the Company and such subsidiaries will continue to enjoy such refunds in the future. However, the Company is not aware of any governmental policy changes such that the said refunds will cease to be available to the Company or the above-mentioned subsidiaries.

	1998 RMB'000	10 months from 1st March, 1997 (date of establishment of the Company) to 31st December, 1997 RMB'000
Group:		
Taxation charged	142,703	110,095
Taxation refundable	(77,788)	(60,052)
	64,915	50,043
Deferred taxation	(760)	3,042
Associated company	6,264	—
	70,419	53,085

4. Transferred to reserves

In accordance with the Company Law of the PRC and the Company's articles of association, the Company is required to allocate 10 per cent. of its profit after taxation, as determined in accordance with PRC accounting standards and regulations applicable to the Company, to the statutory surplus reserve (the "SSR") until such reserve reaches 50 per cent. of the registered capital of the Company. Subject to certain restrictions set out in the Company Law of the PRC and the Company's articles of association, part of the SSR may be converted to increase share capital.

In accordance with the Company Law of the PRC, the Company is required to transfer between 5 per cent. to 10 per cent. of its profit after taxation, as determined in accordance with PRC accounting standards and regulations applicable to the Company, to its statutory public welfare fund (the "PWF"), which is a non-distributable reserve other than in the event of the liquidation of the Company. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain as properties of the Company.

For the Period, the board of directors of the Company has proposed to transfer RMB36,873,000 and RMB18,436,000 to the SSR and the PWF respectively. The aggregate amount represents 15 per cent. of the Company's profit after taxation of RMB368,729,000 determined in accordance with the PRC accounting standards. The transfer to the PWF is subject to shareholders' approval at the forthcoming annual general meeting.

According to the relevant regulations in the PRC, the amount of profit available for distribution is the lower of the amount determined under the PRC accounting standards and the amount determined under HKSSAP.

As at 31st December, 1998, the Company had reserves of approximately RMB319,056,000 available for distribution by way of cash or in kind.

5. Dividends

	1998 RMB'000	10 months from 1st March, 1997 (date of establishment of the Company) to 31st December, 1997 RMB'000
Proposed dividend RMB0.035 (approximately HK\$0.033, for reference only) per share (Dividend for 1997: RMB0.016 (approximately HK\$0.015) per share)	152,009	69,490

6. Earnings per share

The calculation of earnings per share for the Period is based on the net profit attributable to shareholders for the Period of RMB385,258,000 and 4,343,114,500 shares in issue during the Period.

The earnings per share of RMB7.15 cents for the 10 months ended 31st December, 1997 is based on the net profit attributable to the shareholders of the Company for the 10 months ended 31st December 1997 of RMB285,328,000 and the weighted average of 3,986,994,000 shares in issue during that period.

The pro forma earnings per share of 1997 is based on the pro forma net profit attributable to shareholders for the year ended 31st December, 1997 of RMB296,332,000 and 3,812,785,000 shares, being the weighted average of 2,909,260,000 domestic shares, as if they were issued on 1st January, 1997, and the 1,433,854,500 H Shares issued on 15th May, 1997.

RESULTS, FINAL DIVIDENDS AND CLOSURE OF REGISTER

During the Period, the Group's turnover (representing toll revenue net of revenue taxes) was approximately RMB623,614,000, representing an increase of 41.80 per cent. over that of 1997. The toll revenue generated from the Shanghai-Hangzhou-Ningbo Expressway and the East Connecting Road of Yuhang Co was approximately RMB526,485,000 and RMB41,017,000 respectively, representing an increase of 22.72 per cent. and 13.16 per cent. respectively over those of 1997. The toll revenue generated from the Shangyu-Sanmen Road during the Period was approximately RMB91,003,000. However, since Shangsang Co (the holding company of the Shangyu-Sanmen Road) was established on 1st January, 1998, no such toll revenue was included in the Group's accounts in 1997. Profit after taxation was approximately RMB454,172,000, representing an increase of 44.83 per cent. over 1997.

The directors of the Company (the "Directors") have resolved to recommend the payment of a dividend of RMB0.035 (approximately HK\$0.033, based on an exchange rate of HK\$1 to RMB1.07 (for reference only)) per share in respect of the Period, representing an increase of 118.75 per cent. over that of last year. No interim dividend was paid by the Company during the Period. 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 1998 Annual General Meeting, which is expected to be convened on 28th April, 1999. The Company will notify its shareholders of the time and place of the 1998 Annual General Meeting and the business to be transacted thereat at a later stage.

Based on the above, the register of members of the Company will be closed from 29th March, 1999 to 27th April, 1999 (both days inclusive), during which period no transfer of shares will be registered. Holders of 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 26 March 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 People's Bank of China in the 5 trading days immediately preceding the date of the declaration of the dividend.

BUSINESS REVIEW

During the Period, the Company progressed harmoniously in the areas of management, investment, project construction and corporate image. Most of the achievements exceeded the expectations of the management and the results are satisfactory.

A. Shanghai-Hangzhou-Ningbo Expressway

The Shanghai-Hangzhou-Ningbo Expressway has a total length of approximately 247.6km within Zhejiang Province. It starts from Fengjing (on the boundary of Shanghai Municipality and Zhejiang Province) running southwestward through Jiaying and Yuhang to Hangzhou, and then turning southeastward running through Xiaoshan, Shaoxing, Shangyu and Yuyao before ending in Dazhujia, Ningbo.

(1) Operational sections

The entire Shanghai-Hangzhou-Ningbo Expressway was opened to traffic by the end of December 1998. Before then, an approximately 158.2km section situated between Yuhang and Ningbo was opened to traffic in December 1996.

(a) Traffic volume and toll revenue

The traffic volume and toll revenue of the Shanghai-Hangzhou-Ningbo Expressway recorded in 1998 were as follows:

Table 1: Distance-based weighted-average daily traffic volume in 1998

Period	Shanghai-Hangzhou-Ningbo Expressway (158.2km)		Hangzhou-Ningbo Expressway (145km)		Shanghai-Hangzhou-Ningbo Expressway Hangzhou Section (3.4km)		Shanghai-Hangzhou-Ningbo Expressway Yuhang Section (9.8km)	
	Volume	YoY%	Volume	YoY%	Volume	YoY%	Volume	YoY%
January	9,881	5.62	9,593	4.07	12,592	20.60	12,592	20.60
February	9,683	35.64	9,350	32.44	12,892	67.25	12,892	67.25
March	11,096	17.37	10,678	15.19	15,178	37.41	15,178	37.41
April	12,159	20.95	11,707	18.43	16,574	44.89	16,574	44.89
May	11,485	17.57	11,061	15.03	15,614	41.88	15,614	41.88
June	11,264	25.25	10,841	23.70	15,402	38.84	15,402	38.84
July	11,004	26.48	10,585	25.01	15,114	39.03	15,114	39.03
August	11,115	22.43	10,656	20.72	15,651	36.81	15,651	36.81
September	12,448	23.70	11,894	22.28	17,969	35.19	17,969	35.19
October	12,710	24.71	12,204	24.24	17,699	28.42	17,699	28.42
November	13,028	29.31	12,528	29.64	17,927	26.88	17,927	26.88
December	13,424	29.84	12,778	28.88	20,144	38.69	20,144	38.69
Average	11,617	22.94	11,165	21.36	16,079	36.77	16,079	36.77

Table 2: Monthly toll revenue in 1998

Period	Shanghai-Hangzhou-Ningbo Expressway (158.2km)		Hangzhou-Ningbo Expressway (145km)		Shanghai-Hangzhou-Ningbo Expressway Hangzhou Section (3.4km)		Shanghai-Hangzhou-Ningbo Expressway Yuhang Section (9.8km)	
	RMB'000	YoY%	RMB'000	YoY%	RMB'000	YoY%	RMB'000	YoY%
January	37,122	-3.30	32,107	-5.82	1,292	16.71	3,723	16.71
February	34,439	37.26	29,721	32.62	1,215	76.09	3,503	76.03
March	43,831	16.28	37,568	13.10	1,613	39.90	4,650	39.89
April	45,898	18.50	39,306	14.84	1,698	46.25	4,894	46.31
May	44,644	15.86	38,220	12.06	1,656	45.26	4,769	45.13
June	41,468	22.51	35,426	20.16	1,556	38.31	4,486	38.33
July	42,061	27.38	35,895	25.98	1,588	36.19	4,578	36.21
August	42,363	24.47	35,918	22.74	1,660	35.07	4,785	35.13
September	45,905	24.39	38,793	23.25	1,832	31.04	5,280	31.05
October	48,616	26.88	41,448	27.33	1,846	24.31	5,322	24.35
November	48,490	31.91	41,476	33.56	1,807	22.93	5,207	22.92
December	51,648	31.73	44,017	32.67	1,851	19.19	5,780	29.16
Average	43,874	22.29	37,491	20.44	1,635	33.64	4,748	34.70
Total	526,485	22.29	449,740	20.39	19,768	34.70	56,977	34.70

The outstanding performance in terms of traffic volume and toll revenue of the operational sections of the Shanghai-Hangzhou-Ningbo Expressway in 1998 was principally attributable to the following:

- The Gross Domestic Product of Zhejiang Province achieving a growth rate of 10.1 per cent. in 1998
- Road users' preference of commuting via the Shanghai-Hangzhou-Ningbo Expressway
- Completion of the construction of the two interchanges leading to the Hangzhou toll station in December 1997. This has facilitated traffic flow between the Shanghai-Hangzhou-Ningbo Expressway and the Hangzhou city centre and thereby increased the toll revenue collected
- The Company's adoption of several marketing measures, including:
 - conducting surveys in places where traffic volume of heavy vehicles is high;
 - conducting comparative analysis between the costs of commuting via expressways, national roads and provincial roads, and publicising the benefits of using the Group's expressways to drivers;
 - putting up road signs on other roads and in neighbouring cities so as to direct drivers to the Shanghai-Hangzhou-Ningbo Expressway

(b) **Contract No. 8**

At the time of the listing of the Company on the Hong Kong Stock Exchange, there was World Bank funding in place for the purpose of upgrading the Hangzhou-Ningbo Expressway's toll collection system and introducing traffic monitoring, communications and lighting systems on this expressway (the contract relating to the upgrading and introduction of such systems is referred to as "Contract No. 8"). The Company is responsible for the repayment of the drawdowns on the World Bank funding and any RMB borrowings in respect of Contract No. 8. Details of the arrangements relating to Contract No. 8 and the World Bank Funding were set out in the prospectus of the Company dated 6th May, 1997. The traffic monitoring, communications and lighting systems have already been installed and are now operational. The new toll collection system is expected to be fully operational in the middle of 1999.

(2) **Newly opened sections**

The Jiaying Section, totalling 88.1km in length, and the 1.3km of the Yuhang Section of the Shanghai-Hangzhou-Ningbo Expressway were opened to traffic by the end of December 1998.

The Jiaying Section is owned by Jiaying Co. Construction of the Jiaying Section started on 1st September, 1995. The civil engineering contractors involved were selected through international competitive bidding process under the supervision of the World Bank. In addition, the relevant contracts adopted the internationally recognised FIDIC clauses (i.e. the clauses prepared by the *Federation Internationale des Ingenieurs-Conseils*) which seek to establish a check-and-balance system between owners and contractors. During the project's construction, Wilbur Smith & Associates, an international engineering consultant, conducted on-site inspections which helped to ensure the timely completion, and exert reasonable control over the quality and budget, of this project. After more than three years of construction, the Jiaying Section was opened to traffic on 29th December, 1998, three months ahead of the completion date as specified in the contract.

In 1998, Jiaying Co launched the "Quality 98" programme. The objective of this programme was to ensure, through setting up quality standards and relevant measures, that the stipulated construction specifications of Jiaying Section were met. The programme achieved satisfactory results. In December 1998, the Shanghai Branch of the Ministry of Communication's Quality Monitoring Centre certified that the Jiaying Section's road surface flatness coefficient was 0.65mm on average. This result was above the relevant national quality standard and is among the best nation-wide.

The tendering process for the installation of the traffic management system (including monitoring, communications, toll collection and lighting systems) of the Jiaying Section has commenced. Meanwhile, Jiaying Co has installed a computerized toll collection system to ensure the efficient operation of the toll collection process.

The Jiaying Section reached a distance-based weighted-average daily traffic volume of 10,352 vehicles in the first three days of its opening to traffic. By comparison, it took more than eight months for the first 84km of the Hangzhou-Ningbo Expressway to reach a distance-based weighted-average daily traffic volume of 10,000. The Directors believe that the excellent performance of the Jiaying Section in the first three days of its opening to traffic was mainly attributable to the opening of the entire Shanghai-Hangzhou-Ningbo Expressway.

The Yuhang Section is approximately 11.1km in length and is owned by Yuhang Co, a 51 per cent. owned subsidiary of the Company. Of the approximately 11.1km total length, approximately 9.8km was opened to traffic near the end of December 1995, while the remaining approximately 1.3km, together with the Jiaying Section, was opened to traffic on 29th December, 1998. The traffic management system of the Yuhang Section will be installed pursuant to Contract No. 8, and is expected to be completed at the same time as that of the Hangzhou-Ningbo Expressway.

The Directors believe that, as the entire Shanghai-Hangzhou-Ningbo Expressway is now open to traffic, the number of vehicles using the Shanghai-Hangzhou-Ningbo Expressway will increase.

(3) **Increase in stake in the Jiaying Section**

The Company entered into a sale and purchase agreement with each of Zhejiang Jiaying Road and Bridge Construction and Development Company, Jiaying Suburb Yitong Development Company, Jiashan County Yintong Development Company, Haining Hengtong Development Company and Tongxiang Huatong Company on 8th December, 1998. Pursuant to the agreement, the Company agreed to purchase from them an aggregate of approximately 30.748 per cent. interest in the capital of Jiaying Co for a total consideration of approximately RMB914.67 million. As a result, the Company's interest in the capital of Jiaying Co has increased from approximately 53.445 per cent. to approximately 84.193 per cent. Details of this acquisition were set out in the Company's circular to its shareholders dated 18th December, 1998.

B. Shangyu-Sanmen Road

The Company entered into agreements with six parties including Zhejiang Provincial High Class Highway Investment Company and Huajian Transportation Economic Development Center in October and November 1997 to establish Shangsang Co. Shangsang Co was established on 1st January, 1998 and the Company has a 51 per cent. ownership interest in its capital. Shangsang Co is principally engaged in the construction, operation and management of the approximately 143km Shangyu-Sanmen Road. The total investment of the Shangyu-Sanmen Road is approximately RMB4,300 million. Details of this transaction were set out in the Company's circular to its shareholders dated 14th November, 1997.

Phase I of the Shangyu-Sanmen Road, comprising four sections totalling 37.5km, is already operational. For the year ended 31st December, 1998, these four sections recorded a total traffic volume of approximately 7.24 million vehicles and toll revenue of approximately RMB91 million.

Construction of phase II of the Shangyu-Sanmen Road started in February 1998 and is progressing as scheduled at present. As at the end of 1998, the construction costs incurred amounted to approximately RMB718 million, representing approximately 44.4 per cent. of the total contract value. At this rate of progress, the entire Shangyu-Sanmen Road is expected to be completed and operational by the end of 2000.

Associated company

The Company and Zhejiang Huajing Petroleum Company Limited, an independent third party, established Petroleum Co on 1st July, 1998 with a registered capital of RMB416 million, in which the Company has a 50 per cent. ownership interest. Petroleum Co is principally engaged in the investment, construction and operation of gas stations along high-grade roads and other roads in Zhejiang Province and the sale of petroleum products.

Since its establishment, Petroleum Co has been operating with satisfactory results. The number of gas stations under its management grew from 33 (at the time of its establishment) to 65 (as at 31st December, 1998), and Petroleum Co has plans to increase the number of gas stations under its management to 100 by the end of 1999. For the year ended 31st December, 1998, the net profit from Petroleum Co attributable to the Group was approximately RMB12,418,000.

TOLL ADJUSTMENT APPLICATION

Pursuant to the concession agreement concerning the Shanghai-Hangzhou-Ningbo Expressway (the "Concession Agreement") dated 24th March, 1997 between the Company and the Zhejiang Provincial Government (the "Provincial Government"), the Company may make an application to adjust the toll rates applicable to the Shanghai-Hangzhou-Ningbo Expressway once every three years. The first adjustment shall take place in 1999.

The Concession Agreement stipulates that the Company may submit an application to the Provincial Government for adjusting the toll rates in April 1999. The Company will complete the following preparation work prior to submitting its toll adjustment application:

(1) **Surveys**

The management of the Company has been compiling and reviewing information such as historical traffic volume data, travelling speed, toll rates, relevant travelled distances, road conditions and the composition of vehicle types of the neighbouring national and provincial roads and the Shanghai-Hangzhou-Ningbo Expressway.

(2) **Analysis**

The data obtained through such surveys will then be used to construct different toll rate adjustment proposals. After conducting sensitive analysis on each of the proposals, the merit of each proposal will be considered on the basis of "achieving maximum overall return" and its chances of being approved by the Provincial Government.

(3) **Internal consultation**

The management will then distribute the proposals to the Company's local management offices and seek their views on the proposals.

The Company will expedite all preparation work and endeavour to submit the adjustment application before April 1999. According to the Concession Agreement, the Provincial Government shall issue its official reply to the toll adjustment proposal of the Company by 1st June, 1999 and the new toll rates will take effect on or before 1st July, 1999.

USE OF IPO PROCEEDS

The net proceeds of the initial public offering of the H shares of the Company (the "IPO") amounted to approximately RMB3,524 million. Details of the applications of such proceeds as at 31st December, 1998 are set out below:

- Approximately RMB534.45 million was applied as capital contribution to Jiaying Co for completing construction works of the Jiaying Section
- Approximately RMB5.34 million was used in relation to Contract No. 8
- Approximately RMB637.48 million was used towards repayment of loans and payment of interest
- Approximately RMB 29.4 million was used to purchase approximately 2.44 per cent. of the registered capital of Jiaying 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 Jiaying 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 for the acquisition of an approximately 30.748 per cent. interest in aggregate in the capital of Jiaying Co (the "Acquisition") instead. The total consideration in relation to the Acquisition is approximately RMB914.67 million, and is funded entirely by the IPO proceeds. RMB457.33 million, being half of the Acquisition consideration, was paid at the end of December, 1998, and the balance will be paid on 31st March, 1999
- Approximately RMB813.45 million was used as capital contribution to Shangsang Co (The balance of the capital contribution in the sum of approximately RMB410.55 million will be paid in 1999 and 2000)
- Approximately RMB38 million was used as capital contribution to Petroleum Co

As at 31st December, 1998, the remaining balance of the IPO proceeds of approximately RMB1,008.55 million was deposited in commercial banks in the PRC and invested in short term investments.

EFFECTS OF RECENT ECONOMIC DEVELOPMENTS ON THE COMPANY

In 1998, the Chinese economy performed better than many other economies in Asia. Although its momentum slowed down, the Chinese economy was still able to maintain a relatively high rate of growth. According to the data released by the National Bureau of Statistics, the PRC economy achieved a gross domestic product ("GDP") growth rate of 7.8 per cent. and Zhejiang Province achieved a GDP growth rate of 10.1 per cent., which is higher than the national average. Nevertheless, the Asian financial crisis has adversely affected the economies and stock markets within the region as well as the performance of the Company's stock price.

However, the Company was still able to record substantial growth in both turnover and profit. The Company's core asset, the Shanghai-Hangzhou-Ningbo Expressway, was fully opened to traffic in December 1998, and the Company is confident of its business prospects and growth. Therefore, the Company further increased its interest in the capital of Jiaying Co by approximately 30.748 per cent. before the opening of the Jiaying Section. Prior to the acquisition of further ownership interest in the Jiaying Section, the Company appointed professional traffic consultants to conduct an independent traffic forecast study for the Jiaying Section (a summary of the forecast study was included in the Company's circular to its shareholders dated 18th December, 1998), and formulated the terms of the acquisition on the basis of new forecast findings.

As at 31st December, 1998, the Group did not have any designated deposits or overdue time deposits with any financial institutions in the PRC.

OUTLOOK FOR 1999

1999 will be a challenging year for the Company. In the coming year, the Company will focus on:

- providing safe, comfortable and convenient services to the travellers of its expressways;
- completing the toll rate adjustment for the Shanghai-Hangzhou-Ningbo Expressway with a view to "achieving maximum overall return";
- increasing efficiency by introducing non-stop toll collection lanes at toll stations and stored value IC cards for toll collection;
- introducing further marketing measures to attract more vehicles using the Shanghai-Hangzhou-Ningbo Expressway;
- exploring and developing the advantage of its expressways so as to increase their value;
- taking advantage of the government's current policy on encouraging infrastructure investment to search for high-quality projects in Zhejiang Province in order to increase shareholders' returns. The Company will focus on investing in large road projects which can provide satisfactory returns. The Company will continue to maintain, or establish, contact with local governments and enterprises in order to collect information for internal feasibility studies;
- increasing management and cost control; and
- further strengthening communications with its shareholders and investors so as to increase the Company's transparency.

THE YEAR 2000 PROBLEM

To ensure that the Group's computer systems involved in its operations are Year 2000 compliant, 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, and assessed their potential impacts. The internal review was completed in June 1998.

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. The Directors believe that, in the circumstances, the Group's computer systems necessary for the purposes of its business operations are Year 2000 compliant.

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, redeemed or cancelled any of the Company's shares during the Period.

B. Accommodation benefits for employees

According to relevant rules and regulations in the PRC, the Group and its employees are required to contribute to a housing fund (based on a certain percentage of the salaries of the employees). Apart from making the said contributions, there are no further payment obligations on the Company in this regard. In December 1998, in addition to the contributions made to the housing fund as aforesaid, the Company purchased apartments (which are currently under construction) in the sum of RMB19 million. It intends to sell these apartments (when they are completed) to certain eligible employees of the Company to be determined in 1999 at a discount of approximately 80 per cent. Accordingly, the Company made a provision of approximately RMB15.3 million for the Period. Saved as disclosed above, the Company does not own any staff quarters and has not acquired or disposed of any staff quarters during the Period. The Company has also planned to purchase a few more apartments in the next 3 to 5 years for renting to the Company's employees, but the total consideration for purchasing such apartments is not expected to exceed RMB5 million (unless otherwise required by the laws or regulations of the PRC).

By Order of the Board
Geng, Xiaoping
Chairman and General Manager

Hangzhou, Zhejiang, the PRC
24th February, 1999