

The Board of Directors of Zhejiang Expressway Company Limited (the “Company”) is pleased to announce the results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the period from 1 March 1997 (date of the Company’s establishment) to 31 December 1997 (the “Period”), together with the 1996 and 1997 comparative figures as follows:

FINANCIAL HIGHLIGHTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	For the	Proforma	
		10 months ended 31 December 1997	For the year ended 31 December 1997	1996
		<i>Rmb’000</i>	<i>Rmb’000</i>	<i>Rmb’000</i>
TURNOVER	1	376,785	439,789	273,843
OPERATING PROFIT BEFORE EXCEPTIONAL ITEM		329,044	346,871	159,964
Exceptional item	2	25,355	25,355	—
OPERATING PROFIT BEFORE TAXATION		354,399	372,226	159,964
Taxation	3	(53,085)	(58,639)	(60,296)
PROFIT BEFORE MINORITY INTERESTS		301,314	313,587	99,668
Minority interests		(15,986)	(17,255)	186
PROFIT ATTRIBUTABLE TO SHAREHOLDERS		285,328	296,332	99,854
Dividends	4	69,490		
EARNINGS PER SHARE	5	7.15 cents		

Notes:

1. TURNOVER

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

Toll income	<i>Rmb’000</i>	398,468
Less: Revenue taxes		<u>(21,683)</u>
		<u>376,785</u>

The Company and its subsidiaries are subject to the following types of revenue taxes:

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

2. EXCEPTIONAL ITEM

Exceptional item represents interest earned on the oversubscription monies of the Company’s “H” shares.

3. TAXATION

No Hong Kong Profits tax has been provided as the Group had no taxable profit in Hong Kong during the Period.

The Group was subject to Enterprise Income Tax (“EIT”) 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 numbered 1997 (27) dated 20 February 1997 and 1997 (53) dated 11 August 1997 issued by the Zhejiang Provincial People’s Government, the Company is entitled to a refund from the Zhejiang Finance Bureau of an amount equal to 18% of the Company’s taxable income in respect of EIT paid to the Zhejiang Taxation Bureau started from 1 March 1997, the date of establishment of the Company. Such a tax refund is also applicable to two of its subsidiaries, Yuhang Co and Jiaxing Co, started from 15 May 1997, the date of listing of the Company’s shares on The Stock Exchange of Hong Kong Limited, pursuant to directives numbered 1997(68) dated 2 April 1997 and 1997(67) dated 2 April 1997, issued by the Yuhang Municipal Government and the Jiaxing Municipal Government, respectively. However, there is no assurance that the Company, Yuhang Co and Jiaxing Co will continue to enjoy such preferential tax treatment in the future.

Group	<i>Group</i>	<i>Rmb’000</i>
Taxation charged		110,095
Taxation refundable		<u>(60,052)</u>
PRC taxation		50,043
Deferred		<u>3,042</u>
		<u>53,085</u>

4. DIVIDENDS

Proposed final dividend Rmb1.6 cents per share	<i>1997</i>	<i>Rmb’000</i>
		<u>69,490</u>

5. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit attributable to shareholders for the Period of Rmb285,328,000 and the weighted average of 3,986,994,000 shares in issue during the Period.

BUSINESS REVIEW

The proforma turnover for 1997 was Rmb439,789,000, representing an increase of 61% over the proforma turnover for 1996. The proforma profit before minority interests for 1997 was Rmb313,587,000, representing an increase of 213,919,000 over the proforma profit before minority interests for 1996.

The proforma profit after minority interests of the Company for 1997, are 48% over the proforma profit after minority interests referred to in the prospectus due to the following reasons.

- 1) The funds raised by the issuing of shares are HK\$800 million more than the estimated amount referred to in the prospectus and the earned interest has thus increased;

- 2) The high interest rate (10.98%-13.14% per annum) commercial loan has been repaid in advance of the due date and the interest expenditure for the year 1997 has thus decreased;

- 3) The investment to be made Hangzhou-Ningbo Expressway Huzhou Section has been postponed and the interest income for the year has thus increased; and

- 4) The actual revenue from the non-principal business, including communication conduit rental, roadside advertising, towing and gas servicing, are approximately RMB 10 millions more than the estimated revenue.

The revenue of the Company is mainly attributable to the toll income of the Shanghai—Hangzhou—Ningbo Expressway. In 1997, it amounted to Rmb429.02 million, representing an increase of 61.7% over 1996. The significant improvement was due to the increase of traffic mileage of the Shanghai—Hangzhou—Ningbo Expressway. Sections of the expressway which were opened to traffic in 1997 were 158.2 km. Prior to the Hangzhou—Ningbo Expressway being fully opened in December 1996, the total length of the sections opened to traffic was approximately 92.8 km. This is an increase by 65.4 km when compared with that in 1996.

HANGZHOU-NINGBO EXPRESSWAY

The overall length of the Hangzhou-Ningbo Expressway is 145 km. The Hangzhou-Ningbo Expressway starts at Pengbu in the eastern suburb of Hangzhou and passes in a south easterly direction through Xiaoshan, Shaoxing, Shangyu, Yuyao and Yinxian, ending at Dazhujia in the suburbs of Ningbo. The Hangzhou-Ningbo Expressway is wholly-owned by the Company and there are 12 toll stations.

The first section of the Hangzhou-Ningbo Expressway, with a length of 7 km, runs from Pengbu of Hangzhou to Xiaoshan. It was opened to traffic in 1992. The section from Xiaoshan to Shangyu was first opened to traffic at the end of 1995, and was fully opened in December 1996. Three interchanges at Keqiao, Guali and Dayin were opened respectively in February, March and November of 1997. Sanjiang service station commenced operation in March in the same year.

Toll revenue of the Hangzhou—Ningbo Expressway in 1997 amounted to Rmb 373.52 million, representing an increase of 31.63% from 1996.

SHANGHAI-HANGZHOU EXPRESSWAY

The overall length of the Shanghai-Hangzhou Expressway (in Zhejiang Province) is 102.6 km. The Shanghai-Hangzhou Expressway starts on the boundary between Zhejiang Province and Shanghai Municipality and ends at Pengbu in the eastern suburbs of Hangzhou where it connects with the Hangzhou-Ningbo Expressway. The Shanghai-Hangzhou Expressway has 7 toll stations and comprises the Hangzhou Section, Yuhang Section and Jiaxing Section.

Hangzhou Section

The Hangzhou Section, with an overall length of 3.4 km, connects the Shanghai-Hangzhou Expressway with the Hangzhou-Ningbo Expressway. The Hangzhou Section is wholly-owned by the Company and was opened to traffic at the end of December in 1995. Toll revenue for this section is derived from the total amount of toll revenue from the Shanghai-Hangzhou Expressway. Toll revenue for this section is calculated in proportion to the length of the section bears to the total length of the Shanghai-Hangzhou Expressway. In 1997, toll revenue from this section amounted to Rmb 14.74 million, representing an increase of 42.14% over 1996.

Yuhang Section

The overall length of the Yuhang Section is 11.1 km and falls within the boundary of Yuhang County. The 9.8 km of the Yuhang Section was opened to traffic and started collecting tolls since the end of December in 1995. The remaining 1.3 km of the section is expected to be operational before the end of 1998, the same time as the Jiaxing Section of the Shanghai-Hangzhou Expressway is expected to be operational. Yuhang Section has one toll station.

The Yuhang Section is owned by Zhejiang Yuhang Expressway Company Limited (“Yuhang Co”) in which the Company has a 51% interest. Yuhang Co is responsible for the construction, maintenance and management of the Yuhang Section. It also has an interest in a road of 5.7 km connecting National Road 320 to the Yuhang Section (“East Connecting Road”). In 1997, toll revenues from the Yuhang Section and the East Connecting Road amounted to Rmb 77.01 million, representing an increase of 40.3% over 1996.

Jiaxing Section

The Jiaxing Section of the Shanghai-Hangzhou Expressway, with an overall length of 88.1 km, connects Yuhang Section through Haining southwesterly. It extends northeasterly to Shanghai, connecting expressways in Shanghai Municipality.

Jiaxing Section is owned by Zhejiang Jiaxing Expressway Company Limited (“Jiaxing Co”) in which the Company originally had 51% interest. Subsequently, the Company acquired an additional 2.44% interest of Jiaxing Co according to the reconstruction arrangement after the Company’s listing. The Company’s interest in Jiaxing Co increased to 53.44%.

A subscription agreement was signed by the Company, Jiaxing Co and, a shareholder of Jiaxing Co, Zhejiang Jiaxing Road and Bridge Construction and Development Company (“Road and Bridge Co”) on 11 April 1997 in respect of the increase in the registered capital of Jiaxing Co by Rmb 1 billion. Pursuant to that agreement the parties thereto agreed that the Company and Road and Bridge Co would subscribe for the additional capital of Jiaxing Co in the sum of approximately Rmb 0.534 billion and Rmb 0.466 billion respectively after the listing of the Company. By December 1997, the Company made a contribution to the registered capital of Jiaxing Co in the sum of approximately Rmb 0.16 billion as scheduled. The balance will be invested in 1998 by instalments.

In 1997, the construction works representing 25.73% of the total contract sum of Jiaxing Section were completed and the construction works representing an aggregate of 70.70% of the total contract sum was completed. The foundation works have been completed. Paving works, drainage works, protection works, construction of bridges and passageways, and road facilities representing contract sums of 18.6%, 76.99%, 79.5%, 89.09% and 7.61% respectively were completed. Jiaxing Section is expected to be completed and opened to traffic by the end of 1998.

SHANGYU-SANMEN CLASS I ROAD (“SHANGYU-SANMEN ROAD”)

On 8 December 1997, the Company convened an extraordinary general meeting to approve the establishment of a limited liability joint venture company, Zhejiang Shangyu-Sanmen Highway Company Limited (“Shangsan Co”), with Zhejiang Provincial High Class Highway Investment Company Limited (“Provincial Investment Co.”), Shangyu Municipal Transport Bureau (“Shangyu Transport”), Shengzhou Municipal Transport Bureau (“Shengzhou Transport”), Xinchang County Transport Development Company (“Xinchang Transport”), Tiantai County Transport Development Company (“Tiantai Transport”) and Huajian Transportation Economic Development Centre (“Huajian”), a subsidiary of the Ministry of Communications of the PRC. Shangsan Co will engage in the investment, construction, development, operation and toll-collection of the Shangyu-Sanmen Road and the acquisition of the operational section of Shangyu-Sanmen Road.

The Shangyu-Sanmen Road is a Class I Road which, upon completion, will run from Guzhu Interchange on the Hangzhou-Ningbo Expressway to Wuao Interchange on the Ningbo-Taizhou-Wenzhou Expressway. The total investment of the Shangyu-Sanmen Road, with a total length of 143 km, was estimated to be Rmb 4,290 million. The construction of the project is divided into two phases. Phase 1, consisting of four short sections in Shangyu, Shenzhou, Xinchang and Tiantai, has a total length of 37.5 km and has been operational since February 1997. The construction of the second phase commenced in February 1998 and is intended to be completed by the middle of 2001.

Shangsan Co. has a registered capital of Rmb 2,400 million, of which Rmb 1,224 million was contributed by the Company. Accordingly, the Company owns 51% interest in the Shangsan Co., while Huajian, Tiantai Transport, Provincial Investment Co., Shangyu Transport, Xinchang Transport and Shengzhou Transport own 18.4%, 7%, 6.6%, 6%, 6% and 5% of interests in Shangsan Co., respectively.

FUTURE PROSPECTS

In order to grasp favourable opportunities, the Company reviews and adjusts its development strategies from time to time.

The directors of the Company believe that economic reforms in the PRC will be carried out further and that the government also encourages large enterprises which are financially sound and competitive to restructure other existing enterprises and their assets selectively, through acquisitions and mergers, in order to improve efficiency and productivity. In addition, the directors of the Company believe the PRC also encourages investment in infrastructure projects.

Looking ahead, the Group also plans to invest in other road-related projects, with an aim to broaden the Company's scope of business, focusing on the operation of toll roads, while taking the opportunity of China's current encouragement on infrastructure projects to gradually expand into other transportation-related infrastructure projects' investment and operation.

The Company will formulate major plans for long term development based on comprehensive studies.

The memorable year of 1997 is over and the Company is facing a more challenging year of 1998. The Company believes that with the dedication of the staff, and continuous support of the shareholders as well as the government, the Company will be able to achieve a stable growth in the forthcoming year.

GROUP REORGANISATION

The Company was established as a joint stock limited company in the People's Republic of China (the "PRC") on 1 March 1997. On the same date, the Company issued 2,909,260,000 fully paid domestic shares of Rmb1 each to Zhejiang Provincial High Class Highway Investment Company Limited (the "Provincial Investment Co") in the consideration of the following:—

- (i) acquisition of assets that comprised the exclusive operating rights relating to the Hangzhou-Ningbo Expressway and the Hangzhou Section of Shanghai-Hangzhou Expressway at a valuation of Rmb208,000,000;
- (ii) 51% equity interests in each of Zhejiang Yuhang Expressway Company Limited ("Yuhang Co") and Zhejiang Jiaxing Expressway Company Limited ("Jiaxing Co"); and
- (iii) certain assets and liabilities of the Provincial Investment Co, including all the fixed assets and other long-term assets, together with the current assets and liabilities relating to the daily operations of the Hangzhou-Ningbo Expressway and the Hangzhou Section of the Shanghai-Hangzhou Expressway and all bank loans and other loans as at 30 November 1996.

RESULTS AND DIVIDENDS

The operating results of the Group for the Period and the state of affairs at that date are set out in the financial statements in the Company's 1997 annual report.

The directors has resolved to recommend the payment of a dividend of Rmb1.6 cents per share in respect of the Period to shareholders. The final dividend will be paid after shareholders' approval at its annual general meeting ("Annual General Meeting") scheduled to be held on 25 May 1998.

The register of members holding H shares of the Company will be closed from 25 April 1998 to 25 May 1998 (both days inclusive), during which period no transfer of shares will be registered. To qualify for the final dividend, holders of H shares must deliver their transfers together with the relevant share certificates to the Company's Hong Kong share registrars, HKSCC Registrars Limited at 2/F., Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong no later than 4:00 p.m. on 24 April 1998.

ACCOMMODATION AND BENEFITS FOR EMPLOYEES

According to relevant rules and regulations in the PRC, the Group and its employees are required to contribute their respective contributions to an accommodation fund according to a certain percentage of the salaries and wages of the employees. There are no further obligations beyond the contribution to the accommodation fund.

The Company does not own any staff quarters and has not disposed of any staff quarters during the period.

USE OF PROCEEDS FROM THE ISSUING OF SHARES

A total of Rmb3,524 million (HK\$3,293 million) was raised by the issue of "H" shares during the Period (after deduction of listing expenses of Rmb156 million approximately HK\$146 million), which has been or will be used as to:

- (1) approximately Rmb388.5 million for repaying the Company's outstanding bank loans;
- (2) approximately Rmb637 million for injecting into the Shangyu-Sanmen Road project;
- (3) approximately Rmb160 million for investment in the Jiaxing Section of the Shanghai-Hangzhou Expressway;
- (4) approximately Rmb29.4 million for the purchase of approximately 2.44% of the registered capital of Jiaxing Co.; and
- (5) the remaining balance for placing on fixed term deposits and short-term investments.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

INTERESTS OF DIRECTORS IN CONTRACTS

No director had any beneficial interest in any material contract to which the Company or any of its subsidiaries, its fellow subsidiaries or its holding company was a party, existed at 31 December 1997 or at any time during the Period.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the Period was the Company or any of its subsidiaries, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate.

RECENT ECONOMIC DEVELOPMENT

The directors are of the view that recent economic development in Asia does not have any adverse impact on the Company's operation.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 1997 Annual General Meeting of Zhejiang Expressway Company Limited (the "Company") will be held at 10:00 a.m. on Monday, 25 May 1998 at 78 Beishan Road, Hangzhou 310007, the PRC for the conduct of the following business:

- A. As ordinary resolutions:—
1. To consider and approve the report of the Directors for the year 1997;
 2. To consider and approve the report of the Supervisory Committee for the year 1997;
 3. To consider and approve the audited financial statements for the year 1997;
 4. To consider and approve the budget plan for the year 1998;
 5. To consider and approve the proposed distribution of profits for the year 1997;
 6. To consider and approve the re-appointment of Ernst & Young (Hong Kong Certified Public Accountants) and Zhejiang Certified Public Accountants as the international auditors and the PRC auditors of the Company respectively and to authorise the Board of Directors to fix their remunerations;

- B. As special resolutions:—
1. To approve the Company's allotting, issuing or otherwise dealing with, either separately or concurrently not more than 20% of each of the existing issued domestic invested shares and overseas listed foreign invested shares during the Relevant Period (as defined below) and to authorise the Board of Directors to deal with all necessary matters relating to such allotment and issue.

For the purpose of this resolution, "Relevant Period" means the period from the date upon which this resolution is passed until whichever is the earliest of:—

- (a) the last day of the twelve-month period from the date this resolution is passed; and
- (b) the revocation or variation of the authority given under this resolution by a special resolution of the shareholders of the Company in general meeting.

2. Subject to the passing of the resolution set out in paragraph 1 of this part B, to consider and approve the following amendments to the Articles of Association of the Company and to authorise the board of directors to file the amended Articles of Association with the relevant approval authority of the PRC:—

Article 18 be replaced in its entirety as follows:—

"Article 18 As approved by the examination and approval authority authorised by the State Council, the Company has issued a total of 4,343,114,500 ordinary shares. Upon the establishment of the Company, 2,909,260,000 domestic invested shares were issued to the promoter, Zhejiang Provincial High Class Highway Investment Company Limited (浙江省高等級公路投資有限公司), representing 67% of the total ordinary shares issued by the Company."

Article 19 be replaced in its entirety as follows:—

"Article 19 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 33% of the total number of ordinary shares issued by the Company. The shareholding structure of the Company comprises 4,343,114,500 ordinary shares of which 2,909,260,000 domestic invested shares are held by the promoter, Zhejiang Provincial High Class Highway Investment Company Limited (浙江省高等級公路投資有限公司) and 1,433,854,500 overseas listed foreign invested shares are held by holders of overseas listed foreign invested shares.

If the Company concurrently issues all of the domestic invested shares and overseas listed foreign invested shares being 20% of each of the existing issued domestic invested shares and overseas listed foreign invested shares pursuant to Article 89(1), the shareholding structure of the Company shall comprise 5,211,737,400 ordinary shares of which 3,491,112,000 shall be issued as domestic invested shares to Zhejiang Provincial High Class Highway Investment Company Limited (浙江省高等級公路投資有限公司) and 1,720,625,400 shares shall be issued as overseas listed foreign invested shares to holders of overseas listed foreign invested shares."

By Order of the Board
Zhang Jingzhong
Company Secretary

Hangzhou, Zhejiang Province, the PRC

24 March 1998

Notes:

1. **Eligibility for attending the Annual General Meeting**
Holders of H Shares who intend to attend the Annual General Meeting must give all transfer instruments and the relevant shares certificates to the share registrars for H Shares of the Company, HKSCC Registrars Limited, at or before 4:00 p.m. on Friday, 24 April 1998.
 2. **Registration procedures for attending the Annual General Meeting**
 - (i) A shareholder or his proxy should produce proof of identity when attending the meeting. If a holder of domestic invested share(s) appoints its legal representative to attend the meeting, such legal representative shall produce proof of identity and a copy of the resolution of the board of directors or other governing body of such shareholder appointing such legal representative to attend the meeting.
 - (ii) Holders of H Shares and domestic invested shares intending to attend the Annual General Meeting should return the reply slip for attending the Annual General Meeting to the Company on or before 5 May, 1998.
 - (iii) Shareholders may send the above registration documents to the Company in person, by post or by fax.
 3. **Proxy**
 - (i) A member eligible to attend the Annual General Meeting is entitled to appoint, in written form, one or more proxies to attend and vote on behalf of him. A proxy need not be a member.
 - (ii) A proxy should be appointed by a written instrument signed by the appointor or its attorney. If the form of proxy is signed by the attorney of the appointor, the power of attorney or other authorisation document(s) of such attorney should be notarised.
 - (iii) To be valid, the power of attorney or other authorisation document(s) which have been notarised together with the completed form of proxy must be delivered, in the case of holders of domestic invested shares, to the Company and, in the case of holders of H Shares, to HKSCC Registrars Limited, not less than 24 hours before the time designated for holding of the Annual General Meeting.
 - (iv) A proxy may exercise the right to vote by a show of hands or by poll. However, if more than one proxy is appointed by a shareholder, such proxies shall only exercise the right to vote on a poll.
 4. **Closure of Register of Members**
The register of members holding H Shares of the Company will be closed from 25 April, 1998 to 25 May, 1998 (both days inclusive).
 5. **Miscellaneous**
 - (i) The Annual General Meeting will not last for more than one day. Shareholders who attend shall bear their own travelling and accommodation expenses.
 - (ii) Share Registrar for H Shares of the Company, HKSCC Registrars Limited is at:
2/F. Vicwood Plaza
199 Des Voeux Road Central
Hong Kong
 - (iii) The registered address of the Company is at:
No.2 Villa, 78 Beishan Road
Hangzhou 310007,
The PRC
- Telephone No.: (+86)-571-7964605
Facsimile No.: (+86)-571-7963205

By Order of the Board
Geng Xiaoping
Chairman and General Manager

Hangzhou, Zhejiang Province, the PRC
24 March 1998