



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)

2001 Interim Results Announcement

Financial Highlights

- Turnover up 26.0% to Rmb754,113,000
- Net profit up 16.8% to Rmb367,899,000
- Earnings per share up 16.4% to Rmb8.5 cents
- Interim dividend per share of Rmb3.0 cents recommended

Business Review

- Total toll income grew by 26.3% over the same period in 2000 to approximately Rmb780,122,000.
- Shanghai-Hangzhou-Ningbo Expressway's average daily traffic volume grew by 12.2% over the same period in 2000, with toll income growing by 8.1% to approximately Rmb635,933,000.
- Shangsang Expressway was open to traffic in December 2000, increasing the total mileage of expressways operated by the Group from 248km to 390km, while contributing a toll income of approximately Rmb144,189,000 during the Period.
- The Directors have approved a simulated share option scheme which aimed at providing the management of the Company with an incentive related to the performance of the Company.

The board of directors (the "Directors") of Zhejiang Expressway Co., Ltd. (the "Company") is pleased to present the unaudited consolidated operating results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2001 (the "Period"). The interim report has been reviewed by the audit committee of the Company and approved by the Directors on 10 August 2001. The accounting information given in the interim report has not been audited.

During the Period, the Group realized a turnover of Rmb754,113,000 and a net profit attributable to shareholders of Rmb367,899,000, representing a growth of 26.0% and 16.8% respectively over the same period in 2000; earnings per share realized were Rmb8.5 cents, representing a growth of 16.4% over the same period in 2000.

The Directors have resolved to recommend the payment of an interim dividend of Rmb3.0 cents (approximately HK\$2.8 cents, based on an exchange rate of HK\$1 to Rmb1.07 (for reference only)) per share in respect of the Period (interim dividend for 2000: Rmb2.0 cents). The recommendation is subject to approval at the extraordinary general meeting of the shareholders of the Company to be held on 28 September 2001. Please see a relevant notice for details.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 June	
		2001 Unaudited Rmb'000	2000 Unaudited Rmb'000
TURNOVER	2	754,113	598,531
Operating cost		(162,394)	(141,503)
Gross profit		591,719	457,028
Other revenue	3	170,439	111,608
Administrative expenses		(25,981)	(28,700)
Other operating expenses		(9,978)	(6,403)
PROFIT FROM OPERATING ACTIVITIES	2,4	726,199	533,533
Finance costs		(141,914)	(97,881)
Share of profit of associates		16,627	5,390
Share of loss of a jointly-controlled entity		(1,151)	(2,369)
PROFIT BEFORE TAX		599,761	438,673
Tax	5	(176,737)	(85,191)
PROFIT BEFORE MINORITY INTERESTS		423,024	353,482
Minority interests		(55,125)	(38,573)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		367,899	314,909
Transferred to reserves		(2,424)	—
Dividends	6	—	(86,862)
RETAINED PROFIT FOR THE PERIOD		365,475	228,047
EARNINGS PER SHARE	7	8.5 cents	7.3 cents

Notes:

1. ACCOUNTING POLICIES

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" and the relevant disclosure requirements as stipulated in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Other than the goodwill arising from further acquisition of equity interests in subsidiaries, which are stated as assets and amortized on a straight-line basis over 10 years in accordance with the SSAP30 "Business Combination" which was issued in January 2001 (however, no retrospective adjustment was made), the accounting policies and basis of preparation used in preparing the interim financial statements are the same as those used in preparing the financial statements for the year ended 31 December 2000.

2. SEGMENT INFORMATION

There has been no change in the Group's principal activities during the Period. The results of operations by principal activity are summarised as follows:

	Toll		Advertising		Others		Total	
	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited	Unaudited
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Six months ended 30 June 2001								
— Turnover	740,122	9,444	4,547	754,113				
— Contribution to profit from operating activities	720,278	5,826	95	726,199				
Six months ended 30 June 2000								
— Turnover	583,760	4,540	10,231	598,531				
— Contribution to profit from operating activities	527,118	3,590	2,825	533,533				

During the Period, the entire turnover and contribution to profit from operating activities of the Group was derived from Zhejiang Province, the PRC. Accordingly, a further analysis of the turnover and contribution to profit from operating activities by geographical area is not presented.

3. OTHER REVENUE

	For the six months ended 30 June	
	2001 Unaudited Rmb'000	2000 Unaudited Rmb'000
Income on short term investments in securities	74,819	67,806
Interest income	29,848	38,427
Rental income	1,809	1,477
Trailer income	4,039	3,595
Exchange gain	53,172	—
Others	6,752	303
	170,439	111,608

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging:

	For the six months ended 30 June	
	2001 Unaudited Rmb'000	2000 Unaudited Rmb'000
Depreciation	96,879	68,742
Amortisation of expressway operating rights	4,350	4,350
Amortisation of goodwill	1,246	—
Interest on borrowings	141,914	97,881

5. TAX

According to the relevant national tax rules, Zhejiang Shangsang Expressway Co., Ltd. ("Shangsang Co."), a 61% owned subsidiary of the Company, was qualified for the exemptions under the category of "New enterprise providing employment opportunities to redundant workers", and therefore was entitled to an exemption from Corporate Income Tax ("CIT") for three years starting from 1 January 1998. During the Period, however, as the three years exemption was no longer applicable to Shangsang Co., it was subject to the CIT levied at a rate of 33%.

Zhejiang Expressway Advertising Co., Ltd. ("Advertising Co."), a 70% owned subsidiary of the Company, was no longer entitled to the CIT exemption under the directive numbered Cai Shui (94)001 since 1 January 2001. Accordingly, Advertising Co. was subject to the CIT levied at a rate of 33%.

Save as above, the tax rate of other group companies and the preferential tax treatment that certain companies are entitled to remained unchanged as those used to prepare the financial statements for the year ended 31 December 2000.

	For the six months ended 30 June	
	2001 Unaudited Rmb'000	2000 Unaudited Rmb'000
Group:		
Tax charged	150,122	117,515
Tax refunded/refundable	(36,115)	(33,723)
	114,007	83,792
Deferred	46,236	(380)
Share of tax attributable to associates	13,983	1,779
Share of deferred tax attributable to an associate	1,994	—
Share of deferred tax attributable to a jointly-controlled entity	517	—
Tax charge for the Period	176,737	85,191

There was no material unprovided deferred tax in respect of the Period (six months ended 30 June 2000: Nil).

6. DIVIDENDS

The Directors recommend the payment of an interim dividend of Rmb3.0 cents (approximately HK\$2.8 cents) per share (2000 interim: Rmb2.0 cents (approximately HK\$1.87 cents per share)). The recommendation was not incorporated into these financial statements.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the Period of Rmb367,899,000 (six months ended 30 June 2000: Rmb314,909,000) and the 4,343,114,500 shares (30 June 2000: 4,343,114,500 shares) in issue during the Period.

Diluted earnings per share for the periods ended 30 June 2001 and 2000 have not been calculated as no diluting event existed during these periods.

BUSINESS REVIEW AND OUTLOOK

The Group's unaudited net profit attributable to shareholders during the Period was approximately Rmb367,899,000, representing a growth of 16.8% over the same period in 2000. The growth was in line with the Directors' expectations.

Strong national and local economic performance provided a favorable business environment for the Group which achieved exceptional growth in its core business operations of toll roads and continued expansion in its non-core business operations.

Toll road operations

During the Period, traffic volume on the Shanghai-Hangzhou-Ningbo Expressway continued to record satisfactory growth, with average daily traffic volume growing by 12.2% over the same period in 2000 and toll income growing by 8.1% to approximately Rmb635,933,000.

With the completion of the Shangsang Expressway in December 2000, total mileage of expressways operated by the Group increased from 248km to 390km. In addition, due to its direct linkage to the Group's main toll road, the Shanghai-Hangzhou-Ningbo Expressway, the Shangsang Expressway's opening to traffic had resulted in a "networking" effect, which contributed to continued growth in traffic volume on the Shanghai-Hangzhou-Ningbo Expressway.

With toll income contribution from the newly opened Shangsang Expressway being approximately Rmb144,189,000, total toll income of the Group grew by 26.3% over the same period in 2000 to approximately Rmb780,122,000.

Other businesses

Advertising Co., a subsidiary 70% owned by the Company, continued to expand its business operations in advertising along the expressways operated by the Group with sales techniques and incentives suitable to market conditions. During the Period, turnover and net profit were approximately Rmb9,444,000 and Rmb3,975,000, representing a growth of 109.3% and 65.3%, respectively, over the same period in 2000. Newly acquired businesses accounted for approximately 73% of total turnover.

Joinhands Technology Co., Ltd., an associate 30% owned by the Company, had begun to expand its technologies and instruments developed for the purpose of anti-counterfeiting and logistics management in merchandising markets beyond the provincial boundary, while continuing to improve relevant technologies for application in other fields such as the use of information collection devices in the power and telecommunication industries. During the Period, the associate realized a net profit of approximately Rmb580,000.

In response to substantially reduced wholesale businesses and rising prices of petroleum products on the global markets, Zhejiang Expressway Petroleum Development Co., Ltd. ("Petroleum Co."), an associate 50% owned by the Company, took measures to reduce costs on the one hand, and adopted active cash management strategies on the other hand, including short-term investments. Net profit realized by Petroleum Co during the Period was approximately Rmb950,000.

Increased stake in Jiaying Co

On 4 June 2001, the Company entered into agreements to further increase its stake in the capital of Zhejiang Jiaying Expressway Co., Ltd., a subsidiary of the Company, from approximately 84.2% to 87.3% for an aggregate consideration of Rmb93,369,024. Details of this acquisition were disclosed in the Company's announcement dated 4 June 2001.

Outlook

Macro-economic growth prospects for China remain optimistic as the country prepares for its imminent accession to the WTO which is expected to occur by the end of the year.

Zhejiang province, which already boasts one of the most diverse and vibrant economies in the country, is expected to be one of the biggest beneficiaries of China's WTO accession.

In one of the published research reports compiled by a local research institution, GDP growth rate in Zhejiang province, which has been growing on average by 11% annually over the past five years, is estimated to increase by an additional 1.3% annually during the five years immediately after the WTO accession, with its garment, textile and leather industries benefiting the most from this development.

As demand for road transport continues to grow, so will the competition between different modes of transport. The Directors are confident that with the convenience and flexibility unmatched by any other mode of transport, expressway transport will continue to be the fastest growing sector in the overall transport industry.

Robust economic growth prospects in the province, together with sizable growth potential in the private ownership of passenger cars, are expected to sustain the relatively high growth rates in traffic volumes on the existing expressways operated by the Group.

While the Company intends to remain focused on its core business of toll road investment and operations and seeks to further expand its expressway portfolio in the province, it is also prepared to grasp opportunities presented by China's WTO accession.

The Company has applied to the China Securities Regulatory Commission for the issue of not more than 300 million domestic shares ("A Shares") to the public in the People's Republic of China to raise approximately Rmb1,290 million for the first and second stages of construction to widen the Shanghai-Hangzhou-Ningbo Expressway. It is expected that the issue of A Shares (the "A Share Issue") will be completed before the end of the year 2001.

FINANCIAL REVIEW

The Group will endeavour to achieve maximum return for its shareholders while maintaining a sound and prudent investment strategy. In particular, in the medium to long-term, the Company will focus on investing in highways and other infrastructure projects while striving to maintain an appropriate level of borrowings and gearing ratio. In the short-term, the Group will continuously review its portfolio of borrowings and make any necessary adjustments in a timely manner. The continuous inflow of cash generated from the Group's toll road operations will be invested in short-term investments with low risk exposure, which is in line with the Group's objective of achieving maximum return for shareholders.

As at 30 June 2001, the Group's interest-bearing borrowings increased slightly from 31 December 2000 to Rmb3,611,425,000 (31 December 2000: Rmb3,446,598,000), of which 59% represented short-term borrowings repayable within a year (31 December 2000: 53%), whereas the balance represented medium to long-term borrowings and corporate bonds.

During the Period, interest rates to which the Group's borrowings were subject did not experience any significant change compared with 2000. In particular, the annual floating rates of the World Bank loans ranged from 5.11% to 8.76%, while the annual interest rates of commercial banks were approximately 5.022%-5.643% for short-term borrowings. The Group's combined earnings to interest multiple for the Period was approximately 5.0 times (the same period in 2000: 5.3 times).

Furthermore, the Company made an early repayment of the loan obtained from the World Bank for the construction of the Hangzhou-Ningbo Expressway on 31 July 2001. The early repayment caused an interest penalty charged by the World Bank of approximately US\$3 million, which was more than offset by an exchange gain allocated by the World Bank of US\$6.4 million. The event has been considered as a significant adjusting post balance sheet event and has been incorporated into the interim operating results.

Compared with 31 December 2000, there was no significant change in the capital structure of the Group as at 30 June 2001. The gearing ratio by dividing the total long-term liabilities by shareholders' equity was approximately 16.5% (31 December 2000: 18.7%). The Directors are of the view that the current gearing ratio is relatively low, thus providing more room for obtaining debt financing for the future development of the Company.

During the Period, the cash flow generated from the Group's operating activities amounted to approximately Rmb686,024,000. As a group principally engaged in toll road operations, the Group has maintained a strong cash inflow from its ordinary operating activities since its establishment. As at 30 June 2001, of the current assets of Rmb2,351,921,000 in aggregate, prepayments to expressway contractors, accounts receivable and inventory represented only about 5% (31 December 2000: 6%). In the foreseeable future, the Directors anticipate that the Group will not experience any difficulty in liquidity.

As at 30 June 2001, the Group had in possession cash and cash equivalents, fixed deposits and short-term investments in the amount of Rmb2,014,842,000. The average interest rates for bank deposits in US dollars, Euro, Hong Kong dollars and Renminbi were 5.1%, 9.0%, 4.5% and 1.3% respectively.

The short-term investments made by the Group principally comprised convertible bonds and closed-end equity funds as follows:

	As at 30 June 2001		As at 31 December 2000	
	Unaudited Rmb'000	Unaudited Rmb'000	Unaudited Rmb'000	Unaudited Rmb'000
Government bonds	62,246	156,525		
Convertible bonds	220,025	99,485		
Closed-end equity funds	119,869	121,955		
Total	402,140	377,965		

During the Period, profit before taxation derived from short-term investments was approximately Rmb74,819,000 (6 months ended 30 June 2000: Rmb67,806,000), and the corresponding rate of return on investments was approximately 11% (six months ended 30 June 2000: 9.8%).

As at 30 June 2001, details of the capital commitments of the Group were as follows:

	As at 30 June 2001		As at 31 December 2000	
	Unaudited Rmb'000	Unaudited Rmb'000	Unaudited Rmb'000	Unaudited Rmb'000
Contracted but not provided:				
- construction of expressways	579,651	622,684		
- proposed further acquisition in Shangsang Co	485,000	485,000		
- others	—	1,886		
Approved but not contracted:				
- construction of expressway	2,267,334	2,500,980		
	3,331,985	3,610,550		

Among the total capital commitments, Rmb1,209,129,000 for the widening project of Hangzhou-Ningbo Expressway will be financed by the net proceeds arising from the A Share Issue. The remaining capital commitments, comprising mainly the residual construction work of the Shangsang Expressway, and the proposed further acquisition in Shangsang Co will be financed by cash generated from operating activities, any profits generated from short term investments and, if necessary, commercial bank loans.

As at 30 June 2001, the interest-bearing borrowings and cash deposits denominated in US dollars of the Group were US\$216,097,000 and US\$119,869,000, respectively. Upon the completion of the aforesaid early repayment of the World Bank loan in the amount of US\$91,636,000 at the end of July 2001, the interest-bearing borrowings and cash deposits of the Group denominated in US dollars decreased to approximately US\$124,461,000 and US\$28,233,000 respectively.

As at 30 June 2001, other than a guarantee provided by the Group to Hangzhou Shida Highway Co., Ltd., a jointly-controlled entity of the Group, for a loan in the amount of Rmb30,000,000, the Group did not have any contingent liabilities, nor did it have any pledged assets.

SIMULATED SHARE OPTION SCHEME

The Directors have approved, and will recommend to the general meeting of shareholders of the Company for approval, a simulated share option scheme which will be valid for a period of ten years. The scheme is aimed to link part of the remuneration of the management of the Company with the performance of the Company's shares, including H Shares and the proposed A Shares. Details of the scheme have been set out in the Company's announcement dated 4 June 2001. The Directors believe that the adoption of the scheme is beneficial to the Company's long-term development, as it will provide management with a Company performance-related incentive.

APPRECIATION

I would like to take this opportunity to thank Mr. Zhang Jingzhong, who discharged his duties with distinction in his role as the Company Secretary. I am pleased to note that having resigned from his post as the Company Secretary, Mr. Zhang will continue to serve as a Director of the Company.

By Order of the Board
Geng Xiaoping
Chairman

Hangzhou, Zhejiang Province, the PRC
10 August 2001

A detailed interim results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be subsequently published on The Stock Exchange of Hong Kong Limited's website at <http://www.hkex.com.hk> in due course.

Notice of Extraordinary General Meeting

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "EGM") of Zhejiang Expressway Co., Ltd. (the "Company") will be held at 10:00 a.m. on 28 September 2001 at 18th Floor, Zhejiang World Trade Center, 15 Shuguang Road, Hangzhou 310007, the People's Republic of China (the "PRC") for the conduct of the following business:

1. to consider and approve the proposed interim dividend of the Company for the six months ended 30 June 2001; and
2. to consider and approve the simulated share option scheme of the Company.

By Order of the Board
Jiang Wenyaoyao
Company Secretary

Hangzhou, Zhejiang Province, the PRC
13 August 2001

Notes:

1. **Eligibility for attending the EGM**
Holders of Domestic Shares or H Shares whose names appear on the register of shareholders of the Company at the close of trading on 28 August 2001 shall have the right to attend the EGM.
Holders of H Shares who intend to attend the EGM must deliver all transfer instruments and the relevant shares certificates to the share registrar for H Shares, Hong Kong Registrars Limited (which address is set out in paragraph 5 below), at or before 4:00 p.m. on 28 August 2001.
2. **Registration procedures for attending the EGM**
(1) Holders of H Shares and Domestic Shares intending to attend the EGM should return the proxy slip for attending the EGM to the Company by post or by facsimile (address and facsimile numbers are shown in paragraph 5 below) such that the same shall be received by the Company on or before 8 September 2001.
(2) A shareholder or his/her proxy should produce proof of identity when attending the meeting. If a corporate shareholder appoints a 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 at the meeting.
3. **Proxy**
(1) A shareholder eligible to attend and vote at the EGM is entitled to appoint, in written form, one or more proxies to attend and vote on his/her behalf. A proxy need not to be a shareholder.
(2) A proxy should be appointed by a written instrument signed by the appointor or his/her attorney. If the appointor is a corporation, the same shall be affixed with its common seal or signed by its director(s) or duly authorized representative(s). If the form of proxy is signed by the attorney of the appointor, the power of attorney or other authorization document(s) of such attorney should be notarised.
(3) To be valid, the power of attorney or any other authorization document(s) (which have been notarised) together with the completed form of proxy must be delivered, in the case of holders of Domestic Shares, to the Company at the address shown in paragraph 5 below and, in the case of holders of H Shares, to Hong Kong Registrars Limited at the address shown in paragraph 5 below, not less than 24 hours before the time designated for the holding of the EGM.
(4) 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 of H Shares will be closed from 29 August 2001 to 27 September 2001 (both days inclusive), during which no transfer of shares will be registered.
5. **Miscellaneous**
(1) The EGM will not last for more than one day. Shareholders who attend shall bear their own travelling and accommodation expenses.
(2) The address of the share registrar for H Shares, Hong Kong Registrars Limited is at:
2/F, Viewwood Plaza
199 Des Voeux Road, Central
Hong Kong
(3) The address of the Company is at:
19th Floor, Zhejiang World Trade Center
15 Shuguang Road
Hangzhou 310007
People's Republic of China
Telephone No.: (+86)-571-8798 7700
Facsimile No.: (+86)-571-8795 0329