



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

Interim Report 2000

The board of directors (the "Directors") of Zhejiang Expressway Co., Ltd. (the "Company") are pleased to present the unaudited consolidated operating results of the Company and its subsidiaries (collectively the "Group") for the six months ended June 30th, 2000 (the "Period"), together with the 1999 comparative figures as follows. The accounting policies adopted in this interim statement are in line with those adopted in the Group's 1999 annual financial statements, which were prepared in accordance with accounting principles generally accepted in Hong Kong, except that the provisions of No.25 ("Interim Financial Reporting") of the Hong Kong Statements of Standard Accounting Practice (the "HKSSAP") have not been applied to this interim report.

Profit and Loss Account (Unaudited)

	Notes	For the six months ended June 30th,	
		2000 RMB'000	1999 RMB'000
Turnover	2	598,531	470,679
Operating costs		(141,503)	(117,298)
Gross profit		457,028	353,381
Other revenue		111,608	68,010
Administrative expenses		(28,700)	(26,122)
Other operating expenses		(6,403)	(1,187)
Profit from operating activities		533,533	394,082
Finance costs		(97,881)	(79,560)
Share of profit of a jointly-controlled company		(2,369)	—
Share of profit of an associated company		5,390	10,028
Profit before taxation		438,673	324,550
Taxation	3	(85,191)	(45,247)
Profit before minority interests		353,482	279,303
Minority interests		(38,573)	(40,257)
Net profit from ordinary activities attributable to shareholders		314,909	239,046
Dividends		(86,862)	(65,147)
Transfer to reserves	4	—	—
Retained profit for the Period		228,047	173,899
Earnings per share	5	7.3 cents	5.5 cents



Notes:

(1) **Principal activities**

During the Period, the Group was involved in the following principal activities:

- (a) the design, construction, operation, maintenance and management of high grade roads; and
- (b) the development and operation of certain ancillary services such as technical consultation, automobile servicing and fuel facilities.

(2) **Turnover**

Turnover mainly represented toll revenue generated from the Group's operation of expressways, the value of advertising services rendered, and the value of road maintenance services rendered, net of relevant revenue taxes.

Turnover for the six months ended June 30th, 1999 had been adjusted from Rmb 456,609,000, which represented toll revenue generated from the Group's operation of expressways, net of relevant revenue taxes, to Rmb 470,679,000 to incorporate revenues generated from the Group's operation of advertising and food servicing businesses etc. along the expressways, net of relevant revenue taxes.

(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.

Under PRC laws and regulations, enterprises are generally subject to the Enterprise Income Tax ("EIT") levied at a rate of 33 per cent. of their taxable income.

According to an approval from the Zhejiang Provincial Local Tax Bureau dated February 14th, 2000, Shangsang Expressway Co., Ltd. ("Shangsang Co", a subsidiary company 55% owned by the Company) qualified for the exceptions under the category of "New enterprise providing employment opportunities to redundant workers" as defined in the relevant national tax rules, and was accordingly entitled to an exemption for EIT for three years starting from January 1st, 1998.

Pursuant to a directive issued by the Zhejiang Provincial People's Government in 1997, the Company was entitled to refunds (the "Refunds") from the Zhejiang Finance Bureau of an amount equal to 18 per cent. of its taxable income in respect of EIT paid to the taxation bureau.

In accordance with the above, the Group's tax charge for the Period is prepared as follows:

	RMB'000
Tax charged/payable	117,516
Tax refundable	(33,724)
	83,792
Deferred*	(380)
Share of tax attributable to an associate	1,779
	85,191
Tax charge for the Period	85,191

* *The deferred tax of the Group arose from differences in accounting treatments between the generally accepted accounting principles adopted in the PRC and those adopted in preparing this financial statement under HKSSAP.*

Pursuant to the State Council's directive numbered Guo Fa [2000]2 in respect of correcting the tax refund policies adopted by local governments with effect from January 1st, 2000, the Company submitted an application to the Zhejiang Provincial Government seeking the State Council's approval for the Company's continuing entitlement to the Refunds. Although there is no assurance that the application will be approved, the Directors believe that the Company will be able to continue to enjoy the Refund. Accordingly, the Company's taxation for the Period is based on the effective income tax rate of 15%.

In the event approval is not obtained, the Group's tax charge for the Period will be adjusted from RMB 85,191,000 to RMB 118,915,000, the corresponding net profit from ordinary activities attributable to shareholders will be adjusted from RMB 314,909,000 to RMB 281,185,000, and the earnings per share will be adjusted from RMB 7.3 cents to RMB 6.5 cents.

(4) **Transfer to reserves**

During the Period, the Group did not transfer any net profit to reserves.

(5) **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 RMB 314,909,000, and 4,343,114,500 shares in issue throughout the Period (being the total amount of issued shares of the Company).

Interim Dividend and Closure of Register

The Directors have resolved to recommend the payment of an interim dividend of RMB2 cents (approximately HK\$1.87 cents, based on an exchange rate of HK\$1 to RMB 1.07 (for reference only)) per share in respect of the Period. Interim dividend paid in 1999 was RMB1.5 cents per share. The payment of such dividend to its shareholders (including holders of H shares of the Company ("H Shares")) is subject to the approval of the Company's shareholders at an extraordinary general meeting, which is expected to be convened in Hangzhou, the People's Republic of China (the "PRC") on September 25th, 2000.

Based on the above, the register of members of the Company will be closed from August 26th, 2000 to September 24th, 2000 (both days inclusive), during which period no transfer of shares of the Company will be registered. Holders of the H Shares of the Company who wish to qualify for the 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 August 25th, 2000.

The dividend for the H Shares will be paid in Hong Kong dollars based on the average of the daily exchange rate quoted by the People's Bank of China in the five trading days immediately preceding the date of the declaration of the dividend.


Business Review and Outlook

With further improvements in the PRC economy, most notably in areas of domestic demand and foreign export as a result of active government finance and monetary policies, and continued recovery in the Asian regional economies, Zhejiang Province's GDP during the first half of 2000 grew by approximately 10.7%, compared with approximately 8.2% growth for the PRC's GDP during the same period.

Benefiting from this favorable business environment, the Group's unaudited net profit attributable to shareholders for the Period grew by approximately 31.74 per cent. over that for the same period in 1999 to approximately RMB314,909,000. The Directors are satisfied with the results for the Period.

Toll Road Operations

The strong economic performances of Zhejiang Province and its neighboring coastal cities and provinces during the Period have been the primary impetus behind the substantial growth in traffic volume on the Shanghai-Hangzhou-Ningbo Expressway, which continues to be the main source of revenue contribution for the Group. GDP growth rates during the Period for the three major cities of Shanghai, Hangzhou and Ningbo were 10.3%, 11.2% and 12.5% respectively.



Toll revenue on the Shanghai-Hangzhou-Ningbo Expressway during the Period amounted to approximately RMB 588 million, representing an increase of approximately 37.1 per cent. over that of the same period in 1999, and the corresponding growth in average daily traffic volume was approximately 28.8 per cent. over that of the same period in 1999. The higher growth rate for toll revenue relative to traffic volume was largely due to an adjustment in toll charges that took place in mid-1999, and was also attributable in part to vehicles traveling longer distances on average as a result of increasingly refined roadway networks surrounding the Shanghai-Hangzhou-Ningbo Expressway.

In addition, the Directors are pleased to note the increasing popularity of pre-paid IC cards among frequent travelers on the Shanghai-Hangzhou-Ningbo Expressway, which were introduced to increase vehicle flow capacity at expressway toll booths, as well as the emergence of the so-called “holiday economy phenomenon”, which significantly boosted traffic volume during the holiday seasons of Chinese New Year and May 1st Labor Day, as factors contributing to the increase in overall traffic volume and toll revenue on the Shanghai-Hangzhou-Ningbo Expressway.

Meanwhile, the operation of Phase I of the Shangsang Expressway, the original road surface of which required up-grading, was suspended section by section to allow for surface renovations in synchronicity with the construction of Phase II of the Shangsang Expressway. As a result, two toll stations ceased toll collection on January 1st, 2000, and further two ceased toll collection on June 10th, 2000 and July 28th, 2000, respectively. The remaining one toll station is expected to cease toll collection in early August 2000. Accordingly, toll revenue on the Shangsang Expressway during the Period amounted to approximately RMB 29.7 million, a decrease of approximately 33.8 per cent. compared with the same period in 1999. However, the Directors believe that this decrease will be short-term as the construction of Phase II of the Shangsang Expressway is progressing on schedule, and the entire expressway is expected to be completed and operational by the end of year 2000.

At the same time, since the establishment of Hangzhou Shida Highway Co., Ltd. (“Shida Co”, a jointly-controlled company 50 per cent. owned by the Company) in September 1999, a number of measures were carried out by Shida Co to publicize Shida Road as an alternative connecting road between Hangzhou city and the Shanghai-Hangzhou-Ningbo Expressway. As a result of these efforts, traffic volume and toll revenue of Shida Road both increased steadily, with toll revenue amounting to approximately RMB 4.78 million during the Period. Nevertheless, while the opening of Shida Road brought more traffic to the Shanghai-Hangzhou-Ningbo Expressway, interest payments on commercial loans far exceeded operating profit, and Shida Co recorded a loss of approximately RMB 4.74 million for the Period.

Non-core Businesses

In response to changes in the PRC distribution system of petroleum products which took place in late 1999, Zhejiang Expressway Petroleum Development Co., Ltd. ("Petroleum Co", an associated company 50 per cent. owned by the Company) decided to scale down its petroleum products wholesale business, reduce its registered capital by RMB 200 million proportionally, and focus on investments in and the operation of gas stations. Despite a global rise in the price of petroleum products during the Period, total sales and profitability of gas stations operated by Petroleum Co achieved moderate improvements over the same period in 1999, and a profit after taxation of approximately RMB 7.22 million was realized by Petroleum Co., a decrease of approximately 46 per cent. over the same period in 1999.

Zhejiang Expressway Advertising Co., Ltd. ("Advertising Co") made substantial progress in further expanding its roadside advertising business along the Shanghai-Hangzhou-Ningbo Expressway, realizing a profit after taxation of approximately RMB 2.41 million during the Period, an increase of approximately 491 per cent. over the same period in 1999.

Outlook

As the PRC economy becomes increasingly integrated with the global economy, the imminent accession of the PRC into the World Trade Organization offers an entirely new realm of challenges and opportunities. For Zhejiang Province, whose economy is diversified and has adapted well to the changes brought about by the economic reforms carried out in the past two decades, the latest developments will potentially provide more opportunities than challenges.

Traffic volume on the strategically located Shanghai-Hangzhou-Ningbo Expressway is expected to grow further as a result of favorable economic prospects, in addition to the network effect that will be created by the operation of the entire Shangsang Expressway, which is expected to be completed and fully operational by the end of year 2000.

Since traffic volume on certain sections of the Shanghai-Hangzhou-Ningbo Expressway is expected to approach that expressway's saturation point shortly, plans to expand the four lanes of the expressway to six are being drawn up, and widening work for a 44km section of the Hangzhou-Ningbo Expressway between Hongken in the Xiaoshan area and Guzhu in the Shaoxing area will commence later this year. The total budget for this project amounts to approximately RMB 425 million, and the project is expected to be completed in four years.

While the Company will keep its foothold on the toll road sector and will continue to search for investment opportunities in the sector, feasibility studies are being conducted for investment opportunities in other infrastructure sectors such as the municipal water and gas supply networks as well as port and wharf facilities in line with the Company's vision of becoming a leading Chinese infrastructure investment company, and its ultimate objective of maximizing shareholders' value.

Major Corporate Events

New Session of Directors and Supervisors

At the extraordinary general meeting held on February 28th, 2000, a new session of Directors and supervisory committee of the Company (the "Supervisors") were elected for a three-year term of office commencing on March 1st, 2000. Details of the new Directors and Supervisors were disclosed in the Company's announcement dated February 29th, 2000.

Following the election of the new session of Directors, the Company established an audit committee (the "Audit Committee") and a strategic development committee under the board of Directors. The Audit Committee was established in accordance with "A Guide For The Formation Of An Audit Committee" published by the Hong Kong Society of Accountants in December 1997. Members of the Committee comprise the five non-executive directors of the Company with Mr. Tung Chee Chen acting as the Audit Committee chairman.

The Audit Committee convened its first meeting on July 31st, 2000 to review, among others, the interim financial reports of the Group for the Period.

New Project Investment

On April 6th, 2000, the Company entered into agreements to acquire an aggregate interest of 30 per cent. in the capital of Joinhands Technology Co., Ltd. for a total cash consideration of RMB18.5 million. Details of this acquisition were disclosed in the Company's announcement dated April 7th, 2000.

Secondary Listing on the London Stock Exchange

In order to raise the Company's profile among investors in Europe and widen the shareholder base of the Company, all of the H Shares of the Company were admitted to the Official List of the UK Listing Authority (the "Official List") and to trading on the London Stock Exchange. Dealings on the London Stock Exchange commenced on May 5th, 2000.

The listing on the Official List is a secondary listing, with the Company's primary listing being in Hong Kong. No new capital was raised in conjunction with the secondary listing.

Use of IPO PROCEEDS

In line with relevant disclosures on the use of IPO proceeds in the Company's 1999 annual report, approximately RMB 117.3 million from the net IPO proceeds raised by the Company in 1997 was used as capital contribution to Shangsang Co during the Period. The balance of approximately RMB 199.3 million of the Company's IPO proceeds was deposited in commercial banks in the PRC and invested in listed liquidable state bonds.

Disclosure of Interests and Other Matters

Shareholdings of Directors and Supervisors

According to the register maintained by the Company pursuant to the provisions of Section 29 of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (the "SDI Ordinance"), as at June 30th, 2000, none of the Directors or Supervisors of the Company or their respective associates had any interest in the share capital of the Company or any of its associated corporations (as defined in the SDI Ordinance).

During the Period, neither the Company nor any of its subsidiaries had made any arrangements which would enable the Directors or Supervisors of the Company or their respective spouses or children under the age of 18 to subscribe for equity or debt securities of the Company or any of its associated corporations (as defined in the SDI Ordinance).

Substantial shareholders

According to the register required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance, as at June 30th, 2000, the shareholders who held more than 10 per cent. or more of the issued share capital of the Company were as follows:

Registered holder	Number of shares	Percentage
Zhejiang Provincial High Class Highway Investment Company Limited	2,909,260,000 (Domestic shares)	67.0 per cent.
HKSCC Nominees Limited	1,391,037,299 (H Shares)	32.0 per cent.

Designated deposits

As at June 30th, 2000, the Company did not have any trust deposits with any financial institutions in the PRC nor any time deposits which could not be collected upon maturity.

Accommodation benefits for employees

Save as disclosed in the Company's 1999 annual report, the Company did not own, acquire or dispose of any staff quarters during the Period.

Purchase, sale and redemption of the Company's shares

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

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.

I would like to take this opportunity to thank my colleagues on the first session of the Directors and the Supervisors, and the staff of the Group for their hard work, support and contribution to the Group, and to welcome on board the new members of the Directors and Supervisors for what promises to be another three years of growth.

By Order of the Board
Geng Xiaoping
Chairman

Hangzhou, the PRC, July 31st, 2000

Corporate Information

Executive Directors

Mr. Geng Xiaoping
Mr. Fang Yunti
Mr. Zhang Jingzhong
Mr. Xuan Daoguang

Non-executive Directors

Mr. Xia Lingzhang
Ms. Zhang Chunming

Independent Non-executive Directors

Dr. Hu Hung Lick, Henry
Mr. Tung Chee Chen
Mr. Zhang Junsheng

Supervisors

Mr. Ma Kehua
Mr. Ni Ciyun
Mr. Lu Fan
Mr. Sun Xiaoxia
Mr. Zheng Qihua

Company Secretary

Mr. Zhang Jingzhong

Authorised Representatives

Mr. Geng Xiaoping
Mr. Zhang Jingzhong

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H Shares Listing Information

The Stock Exchange of Hong Kong Limited
Code: 0576

The London Stock Exchange plc
Code: ZHEH LI