



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

1998

Interim Report

### Interim Report

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

#### 1. Profit and loss account

(Unaudited)

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

Notes:

##### 1. The Group

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

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

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

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

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

2. Turnover

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

3. *Exceptional items*  
*Profit arising from exceptional items for the first half of 1997 represented interest income from deposit of over subscription monies for the H Shares of the Company in its initial public offering. No exceptional item was recorded for the first half of 1998.*
4. *Taxation*
  - (1) *Under PRC laws and regulations, enterprises are generally subject to Enterprise Income Tax (the "EIT") at the rate of 33 per cent. of their assessable income. Pursuant to the notice from the Zhejiang Provincial Government in 1997, the Company is entitled to a refund in an amount equal to 18 per cent. of the Company's assessable income for the purpose of EIT. Yuhang Co, Jiaxing Co and Shangsang Co also enjoy similar refunds pursuant to notices issued by the Yuhang Municipal Government, the Jiaxing Municipal Government and the Zhejiang Provincial Government respectively. However, there is no assurance that the Company and these subsidiaries will continue to enjoy such refunds in the future. Gaotong Co and Advertising Co do not enjoy such refunds.*
  - (2) *No provision for Hong Kong profits tax has been made in the results for the Period as the Group had no income which would be subject to Hong Kong profits tax.*
5. *Transfer to reserves*  
*No retained profits was transferred to any reserves for the six months ended 30th June, 1998.*
6. *Earnings per share*
  - (1) *The calculation of earnings per share for the first half of 1997 was based on the pro forma profit after taxation, minority interests and exceptional items, and 3,273,665,011 shares (being the weighted average of 2,909,260,000 domestic shares assumed to have been issued on 1st January, 1997 and 1,433,854,500 H Shares issued on 15th May, 1997).*
  - (2) *The calculation of earnings per share for the first half of 1998 was based on the profit after taxation and minority interests, and 4,343,114,500 shares in issue throughout the Period (being the total amount of issued shares of the Company).*

7. *1997 Interim results*

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

**2. Interim dividend**

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

**3. Business review**

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

**Shanghai-Hangzhou-Ningbo Expressway**

The Shanghai-Hangzhou-Ningbo Expressway has a total length of 247.6 km, of which 158.2 km was open to traffic in December 1996 and has been generating toll revenue since then. After one and a half year's operation, it has entered into a period of substantial growth. The weighted average daily full trip traffic flow increased by 19.5 per cent. to 10,940 vehicles per day during the Period when compared with the same period last year, while toll revenue increased by 16.5 per cent. to approximately RMB247.29 million.

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

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

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

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

### Hangzhou-Ningbo Expressway

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

### Shanghai-Hangzhou Expressway

#### – Hangzhou Section

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

#### – Yuhang Section

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

#### – Jiaxing Section

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

### Shangyu-Sanmen Road

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

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

### 4. Prospects for the second half of 1998

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

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

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



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

The Company and Zhejiang Huajing Petroleum Company Limited, an independent third party, established Zhejiang Expressway Petroleum Development Company Limited ("Petroleum Co") on 1st July, 1998 with a registered capital of RMB 416 million. Petroleum Co is principally engaged in constructing, operating and investing in gas stations along high grade roads and other roads in Zhejiang Province (with 26 gas stations in operation and 7 gas stations under construction at present) and the sale of petroleum products. The gas stations are operated under the ZJSY (浙江石油) brand. Petroleum Co intends to expand its gas station chain by constructing new gas stations and acquiring existing operating gas stations in Zhejiang Province. The Company has a 50 per cent. interest in Petroleum Co and accordingly, Petroleum Co will be treated as its associated company. The Company has paid its capital contribution of RMB208 million in full. The Directors expect that Petroleum Co will provide a satisfactory investment return by the end of this year.

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

### 5. Use of IPO proceeds

During the Period, a total of approximately RMB 394.7 million from the proceeds of the initial public offering and placing of H shares of the Company ("IPO") was used in accordance with the proposed applications of proceeds as disclosed in the prospectus of the Company dated 6th May, 1997. Details of the applications of such amount are set out below:

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

As at the end of the Period, the remainder of the proceeds of the IPO was approximately RMB 1,913.9 million, which amount was in part deposited with banks and other financial institutions in the PRC and in part invested in treasury bonds issued by the PRC Government, and the proposed applications of such amount were as follows:

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



## 6. Effect of recent regional economic developments on the business of the Company

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

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

## 7. Year 2000 Compliance

The Company understands that, with respect to the computer systems that record years by the last two digits as opposed to four digits, at the turn of the century, the two digit representation "00" will be recognised as Year 1900. This is a global issue which will affect many institutions including those which are already Year 2000 compliant, because there may be knock-on effects from counterparts who fail to address the problem properly.

In order to ensure that the Group's computer systems involved in its operations will be Year 2000 compliant before the turn of the century such that they will continue to function properly at that time and beyond, the Group's management commenced a review of all the issues that may stem from the Year 2000 Problem in relation to the Group's operations in late 1997.

Two Executive Directors and senior staff members from the finance and operation departments have been assigned to assess the potential impact of the Year 2000 Problem on the operations of the Group. An action plan was formulated with particular emphasis being placed on the operational

and financial systems of the Group. The internal review was completed in June, 1998.

Toll collection and the related data processing and financial management are the principal areas of the daily operations of the Group which require the use of operating computer systems.

The Group's computer systems were all purchased after mid 1990's and were of the latest models which do not record years by the last two digits. To ensure that the computer systems used in the key operations of the Group, namely toll collection and financial management, are Year 2000 compliant, the Group has obtained letters of confirmation in this regard from the suppliers of these computer systems. A new toll collection system for the Hangzhou-Ningbo Expressway will also be installed in the second half of this year. The supplier of this system has also confirmed that this system is Year 2000 compliant. In addition, the Group will perform comprehensive testing on all of its computer systems so as to ensure that they are Year 2000 compliant before the end of 1998. In the absence of unforeseen circumstances, the Directors are confident that the Group's computer systems will be tested Year 2000 compliant by mid 1999.

The revenue of the Group is principally derived from toll collection, which are cash transactions, and 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 Year 2000 Problem will not have a direct impact on the business operation or revenue of, or cause business interruption to, the Group.

The principal counterparts involved in the Group's operations which rely heavily on computer systems are the banks and financial institutions with which the Group places cash deposits or from which the Group borrows money. In view of the high awareness of the Year 2000 Problem amongst institutions in the banking and financial sectors, the Directors are confident that the Year 2000 Problem will be properly addressed by these institutions before the turn of the century. In addition, the finance department of the Group will closely monitor the Group's dealings with banks and financial institutions so as to ensure that the interests of the Group are not prejudiced as a result of any of these banks and financial institutions failing to be Year 2000 compliant.



As a result of the effort of, and the measures taken by, the Group as aforesaid, the Directors consider the Group's exposure to the Year 2000 Problem to be insignificant. The costs and expenses incurred in connection therewith are immaterial to the financial position, results of operations or cash flows of the Group.

## 8. Disclosure of interests and other matters

### (a) Substantial shareholder

According to the register required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as at 30th June, 1998, the shareholder who held more than 10 per cent. of the share capital of the Company is as follows:

Registered holder	Number of shares	Percentage
	Domestic shares	(%)
Zhejiang Provincial High Class Highway Investment Company Limited	2,909,260,000	67.0

### (b) Shareholdings of Directors and Supervisors

According to the register maintained pursuant to the provisions of Section 29 of the SDI Ordinance, as at 30th June, 1998, 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, none of the Company or its subsidiaries made any arrangement which enables 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.

- (c) **Purchase, sale and redemption of the Company's shares**  
Neither the Company nor its subsidiaries had purchased, sold or redeemed any of the Company's shares during the Period.
- (d) **Employee housing scheme**  
At present, the Company does not provide staff quarters for its employees. The Company is currently considering whether the establishment of a housing scheme for its employees would be beneficial to the Company as a whole, and no decision in relation thereto has yet been made nor has any preliminary proposal been adopted for that purpose.

#### 9. Code of Best Practice

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the Period, in compliance with the Code of Best Practice set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

I would like to take this opportunity to thank my colleagues on the Board and the staff of the Group for their hard work, support and contribution during the Period.

**Geng Xiaoping**  
*Chairman*

Hangzhou, the PRC, 10th August, 1998



## Corporate Information

### Executive Directors

Geng Xiaoping  
Ying Shudeng  
Fang Yunti  
Xu Yikuang  
Zhang Jingzhong  
Zhang Chunming  
Xuan Daoguang

### Independent Non-executive Directors

Hu Hung Lick, Henry  
Tung Chee Chen

### Supervisors

Xia Linzhang  
Ge Ailian  
Jiang Wenyao

### Legal Advisers

As to Hong Kong law:  
Herbert Smith  
23rd Floor, Gloucester Tower  
11 Pedder Street  
Hong Kong  
As to PRC Law:  
T & C Law Firm  
18/F, Block A  
100 Moganshan Road  
Yaojiang International Building  
Hangzhou, Zhejiang  
PRC

### Auditors and Reporting

#### Accountants

Ernst & Young  
Certified Public Accountants  
15th Floor  
Hutchison House  
10 Harcourt Road, Central  
Hong Kong

### Sponsor

ABN AMRO Asia Corporate  
Finance Limited  
31st Floor  
Edinburgh Tower  
The Landmark  
Central  
Hong Kong

### Company Secretary

Mr. Zhang Jingzhong

### Authorised Representatives

Mr. Geng Xiaoping  
Mr. Zhang Jingzhong

### Statutory Address

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### Place of Business in Hong Kong

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Hong Kong

### H Share Registrar and Transfer Office

HKSCC Registrars Limited  
2nd Floor, Vicwood Plaza  
199 Des Voeux Road, Central  
Hong Kong

### Principal Bankers

Bank of China, Hong Kong Branch  
China Investment Bank,  
Hangzhou Branch  
Industrial & Commercial Bank of  
China, Zhejiang Branch  
Construction Bank of China,  
Zhejiang Branch  
Pudong Development Bank,  
Hangzhou Branch

### Listing Information

H Shares  
The Stock Exchange of  
Hong Kong Limited  
Code: 0576