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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 with limited liability)

(Stock code: 0576)

2014 FIRST QUARTERLY RESULTS ANNOUNCEMENT

This quarterly results announcement of Zhejiang Expressway Co., Ltd. (the “Company”) for the three months ended March 31, 2014 (the “Period”) is made pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and has been prepared in compliance with section 4.3 of the Disclosure and Transparency Rules of the United Kingdom Listing Authority.

The audit committee of the Company has reviewed the quarterly results of the Company and its subsidiaries (collectively the “Group”) for the Period. Set out below are the Group’s unaudited condensed consolidated statement of profit or loss and other comprehensive income, unaudited condensed consolidated statement of financial position and unaudited condensed consolidated statement of cash flows for the Period together with the comparative figures for the corresponding period of 2013:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the three months ended March 31,	
	<i>Notes</i>	2014	2013
		<i>Rmb’000</i>	<i>Rmb’000</i>
		(Unaudited)	(Unaudited and restated)
Revenue	2	2,018,110	1,741,148
Operating costs		(1,246,087)	(1,095,827)
Gross profit		772,023	645,321
Securities investment gains		21,209	40,138
Other income	3	48,329	49,133
Administrative expenses		(14,100)	(17,949)
Other expenses		(9,590)	(8,456)
Share of profit (loss) of associates		16,321	(144)
Share of loss of a joint venture		(7,489)	(9,323)
Finance costs		(21,141)	(22,369)

		For the three months ended March 31,	
	<i>Note</i>	2014	2013
		Rmb'000	Rmb'000
		(Unaudited)	(Unaudited and restated)
		<hr/>	<hr/>
Profit before tax		805,562	676,351
Income tax expense		(202,244)	(174,366)
		<hr/>	<hr/>
Profit for the Period		603,318	501,985
		<hr/>	<hr/>
Other comprehensive (loss) income			
Items that may be reclassified to profit or loss:			
Available-for-sale financial assets:			
– Fair values (loss) gain during the Period		(1,785)	2,767
Income tax relating to components of other comprehensive (loss) income		446	(692)
		<hr/>	<hr/>
Other comprehensive (loss) income for the Period (net of tax)		(1,339)	2,075
		<hr/>	<hr/>
Total comprehensive income for the Period		601,979	504,060
		<hr/> <hr/>	<hr/> <hr/>
Profit for the Period attributable to:			
Owners of the Company		512,529	431,716
Non-controlling interests		90,789	70,269
		<hr/>	<hr/>
		603,318	501,985
		<hr/> <hr/>	<hr/> <hr/>
Total comprehensive income attributable to:			
Owners of the Company		511,640	432,798
Non-controlling interests		90,339	71,262
		<hr/>	<hr/>
		601,979	504,060
		<hr/> <hr/>	<hr/> <hr/>
Earnings per share – Basic and diluted	4	Rmb11.80 cents	Rmb9.94 cents
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CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at March 31, 2014 <i>Rmb'000</i> (Unaudited)	As at December 31, 2013 <i>Rmb'000</i> (Audited)
Non-current assets	15,265,892	15,436,353
Current assets	18,261,834	16,652,841
Current liabilities	12,936,186	11,914,597
Net current assets	<u>5,325,648</u>	<u>4,738,244</u>
Total assets less current liabilities	<u>20,591,540</u>	<u>20,174,597</u>
Non-current liabilities	<u>396,562</u>	<u>505,638</u>
	<u>20,194,978</u>	<u>19,668,959</u>
Capital and Reserves		
Share capital	4,343,115	4,343,115
Reserves	12,141,063	11,629,423
Equity attributable to owners of the Company	16,484,178	15,972,538
Non-controlling interests	3,710,800	3,696,421
	<u>20,194,978</u>	<u>19,668,959</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the three months ended March 31,	
	2014 <i>Rmb'000</i> (Unaudited)	2013 <i>Rmb'000</i> (Unaudited and restated)
Net cash from (used in) operating activities	772,942	(93,998)
Net cash (used in) from investing activities	(6,108)	521,179
Net cash used in financing activities	(483,191)	(920,000)
Net increase (decrease) in cash and cash equivalents	283,643	(492,819)
Cash and cash equivalents at beginning of the Period	<u>1,806,981</u>	<u>3,392,053</u>
Cash and cash equivalents at end of the Period	<u>2,090,624</u>	<u>2,899,234</u>

Notes:

1. MERGER ACCOUNTING RESTATEMENT

On March 20, 2013, the Group entered into share transfer agreements with Zhejiang Communications Group Co., Ltd. (“Communications Group”) and Yiwu Communications Development Co., Ltd. (“Yiwu Development”), an independent third party, to acquire the 66.283% and 10.267% equity interests in Zhejiang Jinhua Yongjin Expressway Co., Ltd. (“Jinhua Co”), from Communications Group and Yiwu Development, respectively, for corresponding cash consideration of Rmb655,356,000 and Rmb101,512,000, totaling Rmb756,868,000. Jinhua Co is principally engaged in the operation and management of the Jinhua Section of the Ningbo-Jinhua Expressway. Before the above acquisitions, Jinhua Co was a 23.45% owned associate of the Group. After the completion of the acquisition, Jinhua Co then became a 100% owned subsidiary of the Group. Since Communications Group is the parent company of the Company, the Group’s acquisition of 66.283% equity interest in Jinhua Co from Communications Group was regarded as a business combination involving entities under common control and was accounted for using merger accounting method, in accordance with the guidance set out in Accounting Guideline 5 “Merger Accounting for Common Control Combinations” (“AG5”) issued by the Hong Kong Institute of Certified Public Accountants (“the HKICPA”) and the acquisition of 10.267% equity interest in Jinhua Co from Yiwu Development was accounted for as acquisition of additional interest in a subsidiary.

As a result, the comparative condensed consolidated statement of profit or loss and other comprehensive income and condensed consolidated statement of cash flows for the Period ended March 31, 2013 have therefore been restated, in order to include the losses, assets and liabilities of the combining entities since the date on which they first come under common control.

The adopting of merger accounting method in respect of the Group’s acquisition of 66.283% equity interest in Jinhua Co has resulted in a decrease in total comprehensive income attributable to the owners of the Company, a decrease in profit attributable to owners of the Company and a decrease in earnings per share (basic and diluted) for the Period ended March 31, 2013 by Rmb8,376,000, Rmb8,376,000 and Rmb0.19 cents, respectively.

2. REVENUE

An analysis of the Group’s revenue, net of discounts and taxes, for the Period is as followed:

	For the three months ended March 31,	
	2014	2013
	Rmb’000	Rmb’000
	(Unaudited)	(Unaudited and restated)
Toll operation revenue	970,699	905,156
Service area businesses revenue (mainly sales of goods)	544,434	456,465
Advertising business revenue	25,196	26,722
Commission income from securities operation	326,087	280,047
Interest income from securities operation	140,234	72,758
Others	11,460	–
Total	2,018,110	1,741,148

3. OTHER INCOME

	For the three months ended March 31,	
	2014	2013
	<i>Rmb'000</i>	<i>Rmb'000</i>
	(Unaudited)	(Unaudited and restated)
	<hr/>	<hr/>
Interest income on bank balances, entrusted loan receivables and financial products investment	16,113	24,914
Rental income	26,755	17,480
Handling fee income	260	631
Towing income	2,349	2,430
Exchange gain, net	2	6
Others	2,850	3,672
	<hr/>	<hr/>
Total	48,329	49,133
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4. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on profit for the Period attributable to owners of the Company of Rmb512,529,000 (corresponding period of 2013 (restated): Rmb431,716,000) and the 4,343,114,500 (2013: 4,343,114,500) ordinary shares in issue during the Period.

Diluted earnings per share presented is the same as basic earnings per share since there were no potential ordinary shares outstanding during both periods.

BUSINESS REVIEW

Amid the uncertainty of the global economic recovery and confronted with downward pressures in the domestic economy, China posted 7.4% GDP growth in the first quarter of 2014, which was slower than the growth rates in the past few years. Despite the slowdown, Zhejiang Province enjoyed a decent rate of growth in terms of both investment and consumption, though it recorded first quarter GDP growth of 7% compared with the corresponding period of last year, which was slightly lower than the national average, due to a slower growth in both imports and exports.

Despite the economic slowdown in Zhejiang Province, the traffic volume on the Group's expressways continued to grow and the Group's securities business achieved an income increase due to a slight increase in trading volumes in China's securities markets. As a result, the Group's total income increased by 15.9% compared with the corresponding period of last year, realizing a total income of Rmb2,079.06 million generated from various income sources, of which Rmb1,004.14 million was generated from the three major expressways that are operated by the Group, representing an increase of 7.4% from the corresponding period of 2013 and 48.3% of total income; and Rmb584.26 million was generated from the Group's toll road-related businesses, representing an increase of 20.2% from the corresponding period of 2013 and 28.1% of total income. The Group's securities business contributed income of Rmb490.66 million, representing an increase of 31.9% from the corresponding period of 2013 and 23.6% of total income.

Toll Road Operations

During the first quarter, China experienced a slowdown in economic growth and the total volume of exports from Zhejiang Province declined. As a result, the organic growth of traffic volume of freight vehicles and container trucks on the Group's expressways slowed down.

The Group's Shangsang Expressway recorded a substantial increase in traffic volume since the opening of the Jiaying-Shaoxing Bridge (not operated by the Group) in July, 2013, and in particular its opening to trucks at the end of November, 2013, which had a positive impact on the Shangsang Expressway. Although the Jiaying-Shaoxing Bridge diverted a small amount of traffic away from the Group's Shanghai-Hangzhou-Ningbo Expressway, overall, the Group's toll income benefited from the opening of the Jiaying-Shaoxing Bridge during the Period.

In June 2013, the Group completed its acquisition of the Jinhua Section of the Ningbo-Jinhua Expressway. Although the construction work of the local roads that run parallel to the Jinhua Section of the Ningbo-Jinhua Expressway was completed, a number of vehicles on short-distance trips still took the Ningbo-Jinhua Expressway as a result of the Company's effective promotions. This led to a further increase in traffic volume during the Period.

The average daily traffic volume in full-trip equivalents along the Group's Shanghai-Hangzhou-Ningbo Expressway was 42,611 during the Period, representing an increase of 2.56% from the corresponding period of 2013. Average daily traffic volume in full-trip equivalents along the Shangsans Expressway was 22,648 during the Period, representing an increase of 28.43% from the corresponding period of 2013. Average daily traffic volume in full-trip equivalents along the Jinhua Section of the Ningbo-Jinhua Expressway was 14,865 during the Period, representing an increase of 16.35% from the corresponding period of 2013.

Total toll income from the 248km Shanghai-Hangzhou-Ningbo Expressway, the 142km Shangsans Expressway and the 70km Jinhua Section of the Ningbo-Jinhua Expressway amounted to Rmb1,004.14 million during the Period, representing an increase of 7.4% from the corresponding period of 2013. Toll income from the Shanghai-Hangzhou-Ningbo Expressway amounted to Rmb713.10 million, representing an increase of 1.5% from the corresponding period of 2013; toll income from the Shangsans Expressway amounted to Rmb222.95 million, representing an increase of 29.0% from the corresponding period of 2013; while toll income from the Jinhua Section of the Ningbo-Jinhua Expressway amounted to Rmb68.09 million, representing an increase of 13.2% from the corresponding period of 2013.

Toll Road-Related Business Operations

The Company also operates certain toll road-related businesses along its expressways through its subsidiaries and associated companies, including gas stations, restaurants and shops in service areas, roadside advertising, as well as road maintenance.

During the Period, with the opening of the Jiaxing-Shaoxing Bridge, the service areas along Shangsans Expressway benefited from the increase in traffic volume. The total income from service areas along the Shangsans Expressway grew significantly. However, there was a negative impact on income from service areas along the Shanghai-Hangzhou-Ningbo Expressway, which contributes a larger percent of income to the Group. Although the overall income from service areas decreased slightly, there was a solid increase in sales of refined oil products. Income from toll road-related businesses totaled Rmb584.26 million for the Period, representing an increase of 20.2% from the corresponding period of 2013.

Securities Business

During the Period, stock markets in China continued to see an increase in trading activity, with trading volumes increasing by 9.83% compared with the corresponding period of last year. Although the average commission rate declined slightly, income of the Group's brokerage business rose moderately as a result of higher trading volumes.

Additionally, Zheshang Securities Co., Ltd. (“Zheshang Securities”) pushed through further innovations in its businesses and improved its income and profit structure to gradually reduce the dominant role that its brokerage business played in the past and accelerate the comprehensive development of each business segment. During the Period, Zheshang Securities’ businesses, such as investment banking and asset management, grew steadily compared with the corresponding period of last year. In particular, its margin financing and securities lending businesses developed rapidly and performed exceptionally well.

The IPO application submitted by Zheshang Securities was accepted by the China Securities Regulatory Commission in May, 2013. Zheshang Securities is now officially on the wait list for an IPO.

During the Period, Zheshang Securities’ total operating income was Rmb490.66 million, an increase of 31.9% from the corresponding period of 2013, of which brokerage commission income amounted to Rmb350.43 million, up by 17.1%, and interest income from the securities business amounted to Rmb140.23 million, up by 92.7%. Moreover, securities investment gains of Zheshang Securities included in the Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income of the Group was Rmb17.41 million during the Period.

Long-Term Investments

Zhejiang Expressway Petroleum Development Co., Ltd. (a 50% owned associate company of the Company) recorded income of Rmb1,582.07 million, an increase of 7.0% compared with the corresponding period of last year. The rise was primarily attributable to an increase in sales volume of petroleum products. During the Period, the net profit of Zhejiang Expressway Petroleum Development Co., Ltd. was Rmb4.19 million (corresponding period of 2013: net profit of Rmb4.46 million).

Shengxin Expressway Co., Ltd. (a 50% owned joint venture of the Company) operates the 73.4km long Shaoxing Section of the Ningbo-Jinhua Expressway. During the Period, the traffic volume of the Shaoxing Section of the Ningbo-Jinhua Expressway increased as the economy of Zhejiang Province grew steadily. The average daily traffic volume in full-trip equivalents was 13,161, an increase of 11.06% compared with the corresponding period of last year. Toll income during the Period was Rmb70.42 million. However, due to its relatively heavy financial burden, the joint venture reported a loss of Rmb14.98 million.

JoinHands Technology Co., Ltd. is a 27.582%-owned associate company of the Company. The Company instituted legal proceedings with regards to the transfer of the equity interest in this associated company and then lodged an appeal against the subsequent judgment of the Company's priority of compensation for the mortgaged properties. The appeal was ruled in favor of the Company by the Hangzhou Intermediate People's Court on April 28, 2013. These mortgaged properties in the associated company were auctioned off on December 24, 2013. In accordance with the judicial auction procedures, the court will transfer the full payment received from the auction to the Company after the buyer finishes all procedures for ownership transfer of the auctioned properties.

Zhejiang Communications Investment Group Finance Co., Ltd. (a 35% owned associate company of the Company) derives income mainly from fees and commissions for providing financial services, including arranging loans and receiving deposits from subsidiaries of Communications Group. Zhejiang Communications Investment Group Finance Co., Ltd. were accounted for as a share of gain of associates of the Company starting from May 1, 2013, and realized a net profit of Rmb54.44 million during the Period.

FINANCIAL ANALYSIS

Liquidity and financial resources

As at March 31, 2014, current assets of the Group amounted to Rmb18,261.83 million in aggregate (December 31, 2013: Rmb16,652.84 million), of which bank balances and cash accounted for 15.8% (December 31, 2013: 15.1%), bank balances held on behalf of customers accounted for 48.3% (December 31, 2013: 49.4%), and held for trading investments accounted for 8.6% (December 31, 2013: 7.1%). Current ratio (current assets over current liabilities) of the Group as at March 31, 2014 was 1.4 (December 31, 2013: 1.4). Excluding the effect of the customer deposits arising from the securities business, the resultant current ratio of the Group (current assets less bank balances held on behalf of customers over current liabilities less balance of accounts payable to customers arising from securities business) was 2.3 (December 31, 2013: 2.2).

The amount of held for trading investments of the Group as at March 31, 2014 was Rmb1,571.99 million (December 31, 2013: Rmb1,181.03 million), of which 96.0% was invested in bonds, 3.7% was invested in stocks, and the rest was invested in open-end equity funds.

During the Period, net cash inflow generated from the Group's operating activities amounted to Rmb772.94 million.

The directors of the Company do not expect the Company to experience any problems with liquidity and financial resources in the foreseeable future.

Borrowings and solvency

As at March 31, 2014, total liabilities of the Group amounted to Rmb13,332.75 million (December 31, 2013: Rmb12,420.24 million), of which 2.7% was bank and other borrowings, and 65.8% was accounts payable to customers arising from securities business.

As at March 31, 2014, the Group's interest-bearing borrowings totaled Rmb1,358.50 million, representing 26.2% decrease compared to that as at December 31, 2013. The borrowings include domestic commercial bank loans of Rmb300.00 million, loans from domestic non-bank financial institution of Rmb58.50 million, and short-term loan note amounting to Rmb1 billion that was issued by Zheshang Securities in January, 2014, for a term of 3 months. Besides, the short-term loan note issued by Zheshang Securities in October, 2013 has become due and fully repaid. 14.7% of the interest-bearing borrowings is not payable within one year.

Total interest expenses for the Period amounted to Rmb21.14 million, while profit before interest and tax amounted to Rmb826.70 million. The interest cover ratio (profit before interest and tax over interest expenses) stood at 39.1 times (corresponding period of 2013 (restated): 31.2 times).

As at March 31, 2014, the asset-liability ratio (total liabilities over total assets) was 39.8% (December 31, 2013: 38.7%). Excluding the effect of customer deposits arising from the securities business, the resultant asset-liability ratio (total liabilities less balance of accounts payable to customers arising from securities business over total assets less bank balances held on behalf of customers) of the Group was 18.5% (December 31, 2013: 17.8%).

Capital structure

As at March 31, 2014, the Group had Rmb20,194.98 million in total equity, Rmb10,854.67 million in fixed-rate liabilities, Rmb300.00 million in floating-rate liabilities, and Rmb2,178.08 million in interest-free liabilities, representing 60.2%, 32.4%, 0.9% and 6.5% of the Group's total capital, respectively. The gearing ratio, which was computed by dividing the total liabilities less balance of accounts payable to customers arising from securities business by total equity, was 22.6% as at March 31, 2014 (December 31, 2013: 21.6%).

OUTLOOK

The drop in growth rate of both imports and exports adversely affected Zhejiang Province's economy in the first quarter. However, market data in March started to show that the main economic indicators have stabilized and possibly bottomed. It is expected Zhejiang Province's economy will maintain steady growth in the second quarter of the current year. For the whole year, the economy is expected to "open low and grow steadily". As such, the organic growth in traffic volume on the Group's expressways is expected to increase moderately.

In addition, as the road leading to the Hangzhou Airport was closed for construction for the first time, the Zhejiang Provincial Government rolled out a policy that starting from April 15, 2014, about 23.7km of the expressway operated by the Group that included the Second Qianjiang Bridge and having access to the airport, would only open to freight vehicles for four hours in the early morning. As such, this policy is expected to reduce the traffic volume of container trucks. It is expected that annual toll income will decrease by 1.4% as a result of this policy. At the same time, since freight vehicles will not be able to use this expressway most of the time, other vehicles will be able to pass through the road more smoothly and faster, which should help to increase the traffic volume of small passenger vehicles. The Qianjiang Road, which opened to traffic on April 16 this year, had a smaller than expected traffic diversion impact on the Group's expressways.

With regard to the negative impact of the traffic diversion, the Group will monitor the road to the airport closely and carry out in-depth analysis on the newly opened road network of Qianjiang Road and the Jiaying-Shaoxing Bridge. The Group will also carry out more marketing initiatives to promote its expressway network through the broadcast media and highway information boards. The Group will also improve road signage to attract more vehicles to the expressway sections that are operated by the Group and offset the loss from traffic diversions.

With the establishment of the Shanghai-Hong Kong Stock Connect, which is mutual stock market access between Shanghai and Hong Kong, and the adjustment of the monetary policy in China, it is believed that these developments will be beneficial to the Group's securities businesses. At the same time, Zheshang Securities is striving to explore innovative businesses and broaden income sources in a bid to facilitate the comprehensive development of all businesses, and to facilitate its listing process on the Shanghai Stock Exchange.

Currently, the Company is actively developing its strategic transformation plan. The Company's management will pay close attention to updates in industry policy to adjust its operational strategies in a timely manner based on the Company's needs, continue to improve our core expressways business and optimize our securities and finance business. The Group will look to find suitable investment projects with manageable risks, while nurturing management capabilities in our diversified operations in order to support the long-term and sustainable development of the Company and create value for shareholders.

There have been no material events, transactions or change in the financial position of the Company other than as outlined in this announcement. Further, the board of directors (the "Board") of the Company is not aware of any material events, transactions or change in the financial position of the Company which have occurred since 31 March 2014 up to and including 15 May 2014, being the latest practicable date before the date of the publication of this announcement.

By order of the Board
Zhan Xiaozhang
Chairman

Hangzhou, PRC, May 15, 2014

As at the date of this announcement, the executive directors of the Company are: Mr. ZHAN Xiaozhang, Ms. LUO Jianhu and Mr. DING Huikang; the non-executive directors of the Company are: Messrs. LI Zongsheng, WANG Weili and WANG Dongjie; and the independent non-executive directors of the Company are: Messrs. ZHANG Junsheng, ZHOU Jun and PEI Ker-Wei.