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## Financial Highlights

Year ended 31st December	Pro forma		
	Year ended 31st December		Fluctuation
	1998 Rmb'000	1997 Rmb'000	
Turnover	623,614	439,789	41.80
Operating profit	505,609	372,226	35.83
Profit attributable to shareholders	385,258	296,332	30.01
Earnings per share	8.87cents	7.77cents	14.16
Total liabilities (exclude minority interest)	3,605,662	2,598,595	38.75
Total assets	12,971,481	11,466,377	13.13
Total liabilities-to-asset ratio	27.80%	22.66%	22.68



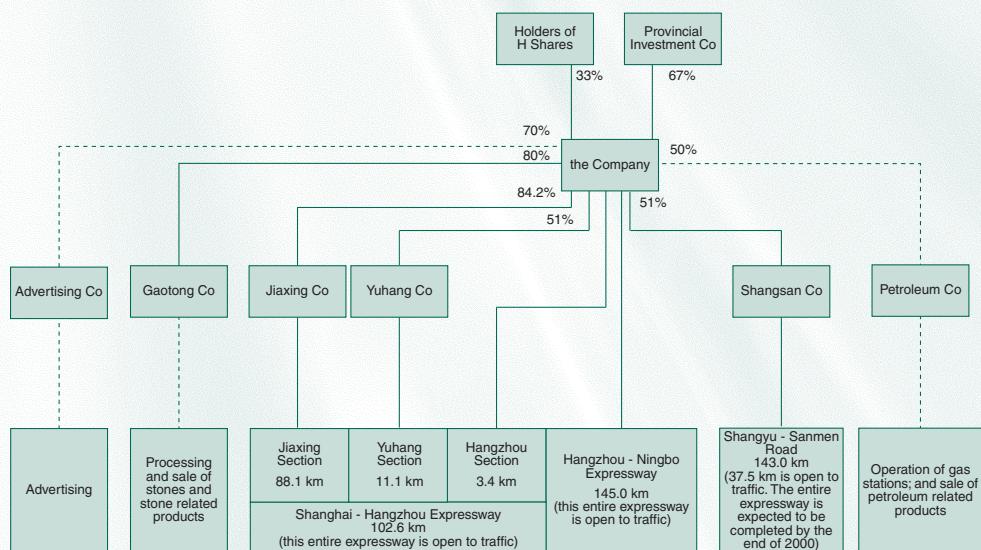
## Company Profile

The H Shares of Zhejiang Expressway Co., Ltd. (the "Company") were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in May 1997 as an infrastructure company focusing on toll road operation. At the time of its listing, the Company (together with its subsidiaries) held interest in only one expressway, namely the Shanghai-Hangzhou-Ningbo Expressway. Subsequently, the Company expanded its toll road portfolio to include a 51 per cent interest in Shangyu-Sanmen Road, and the total length of its expressway portfolio increased from 248km to 391km with operating sections increased from 158km to 285km.

The Company and its subsidiaries are principally engaged in investing in, constructing and managing high grade roads. They also operate certain ancillary businesses, such as automobile servicing, operations of gas stations and bill board advertising along expressways.

The majority shareholder of the Company is Zhejiang Provincial High Class Highway Investment Company Limited ("Provincial Investment Co"). Provincial Investment Co was established by the Zhejiang Provincial Government through the Zhejiang State Assets Bureau for the purpose of developing high grade roads and other road related infrastructure projects in Zhejiang Province.

Set out below is the corporate and business structure of the Company, its subsidiaries and an associated company (the "Group").



### Notes:

“Jiaxing Co”	means	Zhejiang Jiaxing Expressway Co., Ltd.
“Yuhang Co”	means	Zhejiang Yuhang Expressway Co., Ltd.
“Shangsan Co”	means	Zhejiang Shangsan Expressway Co., Ltd.
“Petroleum Co”	means	Zhejiang Expressway Petroleum Development Co., Ltd.
“Gaotong Co”	means	Zhejiang Gaotong Stone Development Co., Ltd.
“Advertising Co”	means	Zhejiang Expressway Advertising Co., Ltd.

## Review of Major Corporate Events in 1998

### January

- Establishment of Shangsan Co, the holding company (in which the Company has a 51 per cent interest) of the Shangyu-Sanmen Road

### March

- Announcement of the 1997 final results

### April

- Being selected as a constituent stock of the Hong Kong Hang Seng 100 Index

### May

- First anniversary of the the Company's H share listing on 15th May
- 1997 Annual General Meeting

### July

- Establishment of Petroleum Co, which is engaged in operation of gas stations and sale of petroleum related products

### August

- Announcement of 1998 interim results

### November

- The Company was selected by International Finance Corporation as a constituent stock of its China Index for investment in Asia.

### December

- The Company increased its equity interest in Jiaxing Co by 30.75 per cent to 84.2 per cent.
- The Jiaxing Section and Yuhang Section of the Shanghai-Hangzhou Expressway with a length of 88.1km and 1.3km, respectively, were opened to traffic. This also marked the opening of the entire Shanghai-Hangzhou-Ningbo Expressway (247.6km in length).



## **Concentrating on the development of core business**

In 1998, the operations of the Company (including operational management, investment and project constructions) progressed smoothly and most of the targets set by the management had been exceeded. The performance of the Group's toll roads (in terms of traffic volume) was also satisfactory. Despite a slow down of China's economy, the traffic volume recorded an over 20 per cent growth rate. Investment projects also began to generate returns and thereby

increasing the income sources of the Group. Projects under construction also progressed as scheduled. The entire Shanghai-Hangzhou-Ningbo Expressway was opened to traffic on 29th December 1998. Construction of Phase II of the Shangyu-Sanmen Road, representing approximately 44 per cent of the total contract value, was completed. Furthermore, as a result of its continuous efforts in improving transparency, the Company's corporate image was further enhanced.

### **Operational management**

Despite a slowdown of the economic growth in China compared with previous years, the Company continued to achieve remarkable results during the year. The turnover of the Group (toll revenue derived from the operation of expressways less related revenue taxes) amounted to Rmb 623,614,000 in 1998, representing an increase of 41.8 per cent over that of 1997.

The toll road sections of the Company which were operational in 1998 comprised the 158 km section of the Shanghai-Hangzhou-Ningbo Expressway, Phase I of the Shangyu-Sanmen Road and the East Connecting Road of the Yuhang Section. 80 per cent and 13.8 per cent of the toll revenue were derived from the operational section of the Shanghai-Hangzhou-Ningbo Expressway and Phase I of the Shangyu-Sanmen Road, respectively. The remaining 6.2 per cent was contributed by the East Connecting Road of the Yuhang Section.

In 1998, the traffic volume of the Shanghai-Hangzhou-Ningbo Expressway was satisfactory. The average daily full trip traffic volume increased by 22.9 per cent compared to that of the previous year. The increase in traffic volume was attributable to the economic growth of Zhejiang Province and the marketing strategies adopted by the Company.

The construction work relating to the upgrading of the toll collection system of, and the installation of the traffic monitoring, communications and lighting systems on, the Hangzhou-Ningbo Expressway (the contracts relating to the work of such traffic management systems are referred to

## **Chairman's Statement**

below as "Contract No.8"), progressed satisfactorily. The traffic monitoring, communications and lighting systems are now operational, and the new toll collection system is expected to become operational in the middle of 1999.

### **Project Construction**

The remaining section of the Shanghai-Hangzhou Expressway of approximately 90km was completed in December 1998. The entire Shanghai-Hangzhou-Ningbo Expressway was opened to traffic on 29th December.

The construction of Phase II of the Shangyu-Sanmen Road also progressed satisfactorily. The construction work representing approximately 44 per cent of the total contract value, was completed in 1998.

### **Investments**

The Company set up Petroleum Co with Zhejiang Huajing Petroleum Company Limited, an independent third party, in the middle of 1998. Each party owns 50 per cent equity interests in Petroleum Co. It is engaged in the operation of gas stations and sale of petroleum products.

On 8th December 1998, the Company entered into various agreements to purchase an aggregate interest of approximately 30.75 per cent in the capital of Jiaxing Co for Rmb914.7 million. The Company's interest in the Jiaxing Co increased from approximately 53.45 per cent to approximately 84.19 per cent.

### **Human Resources**

Due to the increase in traffic volume and the opening of the Jiaxing Section of the Shanghai-Hangzhou Expressway by the end of the year, the number of staff employed by the Company increased from 901 in 1997 to 1,368 in 1998.

In order to further improve the quality of its services, the Company held seminars in relation to road operation and management and application of computer softwares for its staff members so as to provide them with the relevant expertise with a view to enhancing management efficiency. The Company also provided training to toll collection staff in order to improve the quality of their service.

In 1998, the Company has implemented the trial of a performance-linked employee compensation scheme which it believes to be beneficial to the improvement of productivity. Moreover, as an incentive, the Company also rewards outstanding staff members.

### **Corporate Image**

The management of the Company focuses on communications with its shareholders and public investors as this will help them to better understand the Company's business and operations. Last year, the management of the Company made considerable effort in this regard

and achieved fruitful results. The Company will continue to improve its transparency so as to maintain effective communications with its shareholders and public investors.

### Development Strategy

The outstanding results achieved by the Company in 1998 were mainly attributable to its focused development strategy. As an infrastructure company principally engaged in toll road operation, the Company's basic strategy is to invest and develop the toll road business. This generates a stable return. The Company will continue with this strategy.

The Company's focused development strategy is fourfold:

Firstly, the Company aims to further increase the efficiency and returns of its existing roads and to improve the quality of the services provided. In addition it will adopt various marketing strategies to attract more vehicles to use its roads. The Company also plans to facilitate toll collection and traffic flow by introducing automatic toll collection lanes and stored value IC cards for trial runs in the course of 1999.

Secondly, the Company will continue to acquire roads within Zhejiang Province. Our goal is to **establish a road network with the Shanghai-Hangzhou-Ningbo Expressway as the trunk road**. To accomplish this goal, the Company will take advantage of the Government's policy in encouraging investment in the infrastructure sector to seek good investment opportunities in Zhejiang Province. The Company will mainly focus on large-scale road projects which can provide a satisfactory return. To this end, the Company will continue to contact and hold discussions with various local governments and enterprises and obtain information from them to perform internal feasibility study.

Thirdly, the Company will develop other road-related businesses, such as billboard advertising along its roads, with a view to increasing its earnings base and the added value to its core business.

Lastly, the Company will strive to improve its management quality and reduce its operating costs so as to further enhance the Company's competitiveness.

We realize that the economic environments, on both global and national levels, are undergoing fundamental changes. However, the management believes that the Company can adapt to such changes. Moreover, the Company will capitalize on its competitive edge in toll road operation in order to achieve its long-term objectives.

**Geng Xiaoping**  
*Chairman and General Manager*

Hangzhou, Zhejiang Province, the PRC  
25th February 1999

## **Directors, Supervisors and Senior Management**

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### Executive Directors and Senior Management

(1) Mr Geng Xiaoping, aged 50, is the Chairman of the Board of Directors and General Manager of the Company. He is responsible for the overall management of the Company's business. Mr Geng graduated from the East China College of Political Science and Law in Shanghai and obtained a bachelor's degree in law in 1984. From 1979 until 1991 he worked in various positions at the People's Procuratorate of Zhejiang Province including Division Chief and Deputy Procurator. In 1991, he was appointed as the Deputy Director of Zhejiang Provincial Expressway Executive Commission and was responsible for the business operation and administration of the expressway system in Zhejiang. Mr. Geng has entered into a service contract with the Company and works full time for the Company.

(2) Mr Ying Shudeng, aged 61, is a senior engineer. He is a Director, the Chief Financial Officer and a Deputy General Manager of the Company and is responsible for administration and finance. Mr Ying obtained a degree from Hangzhou Technical College (which is now Zhejiang University) in 1960 in mechanical engineering, specialising in road construction design. Between 1960 and 1962, he completed a masters degree in advanced mathematics at Zhejiang University. In December 1962, he began his career in the transport industry with the Works Bureau of the Zhejiang Provincial Communications Office. His responsibilities included road construction. From 1964 until 1971, he held a number of positions ranging from Engineer to Division Chief in the Provincial Communications Office. His responsibilities included transport planning, financial administration, auditing and transport enterprise management. Since 1996 and prior to joining the Company, he was a Deputy Head of the Preparatory Unit responsible for establishing the Company and co-ordinating the reorganization of the Group for the purposes of the listing of the Company on the Hong Kong Stock Exchange. Mr Ying has entered into a service contract with the Company and works full time for the Company.

## **Directors, Supervisors and Senior Management**

### **Executive Directors and Senior Management (Continued)**

(3) Mr Fang Yunti, aged 49, is a Director and Deputy General Manager of the Company. He is responsible for the overall operations of the Shanghai-Hangzhou-Ningbo Expressway which includes being responsible for the technical equipment used by the Company in its operations. Mr Fang graduated from Qing Hua University with a degree in automotive engineering in 1976. From 1976 to 1988, he was the Deputy Engineer and General Manager of Zhejiang Province Automobile Transport Company. From 1988 to 1990, he was the Chief Engineer at the Provincial Road Transport Company. In 1990, he was appointed as the Head of the Operating Administrative and Technical Equipment Divisions of the Executive Commission. His responsibilities included supervision of the operations and construction of the Shanghai-Hangzhou-Ningbo Expressway. He remained in that position until joining the Company upon its establishment. He has entered into a service contract with the Company and works on a full time basis.

(4) Mr Xu Yikuang, aged 64, is a senior engineer, a Director and the Chief Engineer of the Company and is responsible for the planning and development of the Company's operations. Mr Xu graduated from Tong Ji University in 1958 and obtained a degree in engineering, majoring in the construction and design of bridges and tunnels. Since 1958, Mr Xu has held several positions including the Chief Engineer of the Hunan Province Transport Planning Design Institute, and the Chief of the Engineering Administrative Division of the Executive Commission. From 1988 to 1990 he was in charge of the design of the Hangzhou-Ningbo Expressway. From 1990 until 1996, Mr Xu was actively involved in the preparation, assessment, negotiation and implementation of the World Bank loan project in connection with the construction of the Shanghai-Hangzhou-Ningbo Expressway. Mr Xu has more than 40 years of experience in the design, construction and administration of roads and bridges. Since 1996 and prior to joining the Company, Mr Xu was a Deputy Head in the Preparatory Unit which was responsible for establishing the Company, co-ordinating the reorganization of the Group for the purposes of the listing of the Company on the Hong Kong Stock Exchange. Mr Xu has entered into a service contract with the Company and works full time for the Company.

### Executive Directors and Senior Management (Continued)

(5) Mr Xuan Daoguang, aged 54, is a senior engineer, a Director and Manager of the Company. Mr Xuan graduated from the Tong Ji University in 1960 with a degree in engineering, majoring in the construction and design of bridges and tunnels. Mr Xuan has 38 years of experience in engineering maintenance with the Road Administration Division including being the Section Head and, later, the Head of the Road Administrative Division of Jinhua City. Prior to joining the Company, he worked for the Executive Commission and was responsible for the administration of engineering works within Zhejiang Province, including repair and maintenance of the completed sections of the Shanghai-Hangzhou-Ningbo Expressway. Mr Xuan has entered into a service contract with the Company and works full time for the Company.

(6) Mr Zhang Jingzhong, aged 35, is a lawyer and is a Director and Company Secretary to the Board of Directors and is responsible for all secretarial and legal matters. He graduated from Hangzhou University in July 1984, obtaining a bachelor's degree in law. In 1984, he joined the Zhejiang Provincial Political Science and Law Policy Research Unit. From 1988 to 1994, he was the Associate Director of Hangzhou Municipal Foreign Economic Law Firm where he obtained considerable experience in company and commercial law. In January 1994, Mr Zhang became the Senior Partner at the T&C Law Firm in Hangzhou. He retired as the Senior Partner to join the Company on 2nd April 1997. Mr Zhang has entered into a service contract with the Company and works on a full time basis for the Company.

(7) Ms Zhang Chunming, aged 34, is a lawyer and is a Director and Manager of the Company and is responsible for legal and securities related issues. She graduated from the East China College of Political Science and Law in Shanghai obtaining a bachelor's degree in law in 1986. From 1987 to 1994, she practised as a lawyer with the Zhejiang Provincial Economics Law Firm in Hangzhou and her practice included financial, securities and property matters. Ms Zhang has also obtained the qualifications required by the regulatory authorities in China to practise law involving securities and, in 1994, she spent six months undergoing training in Hong Kong. Since 1994 she has been a partner of the Shield Law Office in Hangzhou. She has entered into a service contract with the Company under which she has agreed to devote 60% of her time to the Company's business.

## Directors, Supervisors and Senior Management

### Independent non-executive Directors

- (1) Dr Hu Hung Lick, Henry O.B.E. PhD, JP., aged 79, has been practising as a barrister for over 42 years and is currently the President of Shue Yan College, and a member of the Standing Committee of the Chinese People's Political Consultative Congress and the China International Economic and Trade Arbitration Commission. Dr Hu is also an adviser to the China Research Committee on Juvenile Delinquency.
- (2) Mr Tung Chee Chen, aged 56, is the Chairman of Orient Overseas (International) Limited. Mr Tung was educated at the University of Liverpool, England, where he received his bachelor of science degree. He later acquired a masters degree in mechanical engineering at the Massachusetts Institute of Technology in the United States. He is a registered professional engineer in the State of California.

### Supervisors

- (1) Mr Xia Linzhang, aged 55, is an engineer, having graduated from Jiao Zou Mining College. Prior to commencing with the Company, he was the Head of Suichang Gold Mine, Deputy Head and Head of Suichang County, Zhejiang Province and Deputy General Secretary of Lishui District. He was the Chief of the Planning and Finance Division of the Executive Commission and is currently the Deputy General Manager and Finance Department Manager of the Provincial Investment Company. Mr Xia has extensive experience in project planning, finance and administrative management.
- (2) Ms Ge Ailian, aged 55, graduated from Shanghai Maritime College majoring in water transport economics. She has held positions of accountant, Deputy Chief of the Finance Section, Deputy Manager, and Deputy Chief of the Auditing Division of the Transport Department of Zhejiang Provincial (Communications Office) and has held positions in the Executive Commission as the Chief of the Planning and Finance Division and the Chief of the Supervisory Auditing Division. Ms. Ge is currently the Director of Provincial Investment Company. Ms Ge's area of expertise is financial planning and auditing.
- (3) Mr Jiang Wenyao, aged 34, obtained a masters degree in engineering from Zhejiang University majoring in industrial automation and manufacturing mechanics. In 1991, he became involved in the Executive Commission in the areas of engineering administration, financial planning, and advising on technical equipment. In 1996, he was involved in the establishment of the Company. At present, he is an Assistant to the Company's General Manager. Mr Jiang is experienced in project management, equipment purchase and management, advertising and public relations.

## Management Discussion and Analysis

## Management Discussion and Analysis

### Business Review

#### *Analysis of Business Environment*

All roads owned by the Group are situated at prime locations. As Zhejiang Province enjoys a higher economic growth rate than the national level and has a solid economic structure, the Company expects Zhejiang Province to be able to maintain a strong development in the future. Zhejiang Province is one of the most affluent provinces in the PRC in terms of per capita gross domestic product ("GDP").

#### **GDP Growth**

The PRC and Zhejiang Province witnessed a strong economic growth in the past four years and the GDP growth rate of Zhejiang Province has been consistently higher than the national level. The GDP growth rate of Zhejiang Province in 1998 reached 10.1 per cent, compared to a rate of 7.8 per cent at the national level.

The Group estimates the GDP growth rate of Zhejiang Province in 1999 to be at approximately 9 per cent, while that at the national level at approximately 7 per cent.

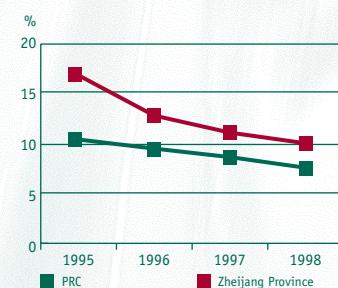
#### **Economic Structure**

The non state-owned enterprises of Zhejiang Province accounted for 80 per cent of the total industrial output in 1998 whereas the state-owned enterprises only represented 20 per cent. The industrial output of foreign investment enterprises, joint stock companies and other types of enterprises accounted for an aggregate of 32 per cent of the total industrial output of Zhejiang Province. This type of economic structure enables the vigorous economic growth of Zhejiang Province.

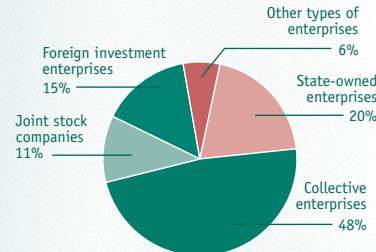
#### **Retail Price Index**

From 1995 to 1998, the Retail Price Indices (RPIs) fell both at the national level and in Zhejiang Province. In 1998, the national RPI was 97.4 and that of Zhejiang Province was 98.4 both of which are expected by the Group to become stabilized in 1999.

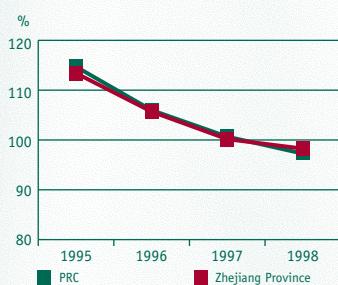
**GDP Growth in PRC**

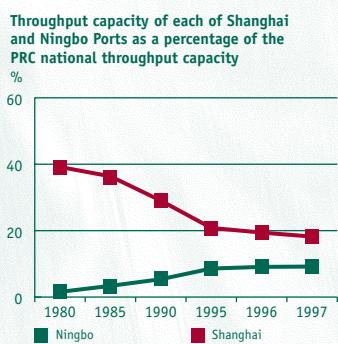


**Composition of the total industrial output of Zhejiang Province in 1998**



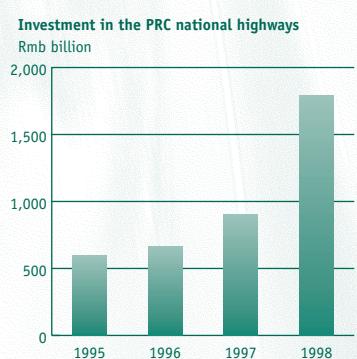
**Retail Price Index of PRC and Zhejiang Province**





### Ports

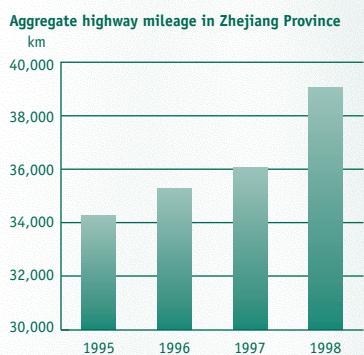
The Shanghai-hangzhou-Ningbo Expressway of the Group connects the two largest ports in China, namely Shanghai and Ningbo ports. With the increase in the use of containers and the further development of the two additional smaller ports, namely Zhoushan and Zhipu ports, in Zhejiang Province, the traffic volume of the Group's expressways will increase in the long run.



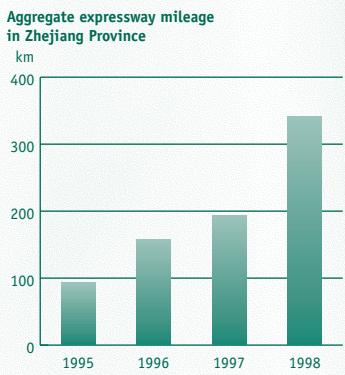
### Road Traffic in PRC and Zhejiang Province

In view of the changes in, and the effect of, international and domestic economic development, the PRC Government has increased investment in infrastructure as an important measure to stimulate economic growth. The Central Government has planned to invest USD1,000 billion in infrastructure projects between 1997 and 2000.

Construction of highways is an integral part in the infrastructure investment plan. In 1998, investments in highway construction increased to Rmb180 billion, nearly doubled that of 1997.



The pace of highway construction in Zhejiang Province has been rapidly increasing during the past four years. In 1998, the aggregate highway mileage in Zhejiang Province reached 39,091km, an increase of approximately 7.6 per cent from that of 1997.

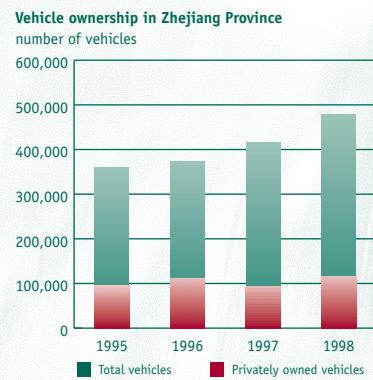


The construction of expressways in Zhejiang Province has grown rapidly in recent years. In 1998, the aggregate expressway mileage in Zhejiang Province amounted to 342km. This represents an increase of 114km from that of 1997. Included in the added mileage is approximately 90km of Shanghai-Hangzhou Expressway which commenced operation last year.

The continued development and improvement of the road network in Zhejiang Province will create significant synergies and increase traffic volume of the Company's expressways.

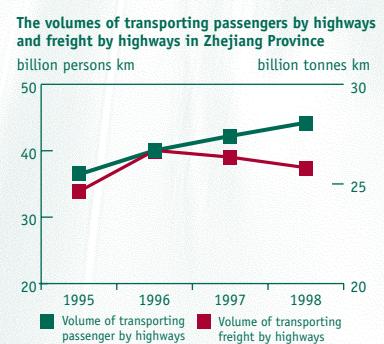
## Management Discussion and Analysis

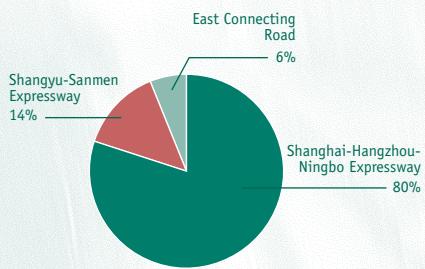
Due to the increasing economic activities, the number of vehicle ownerships in Zhejiang Province has been growing rapidly. The number of privately owned cars in 1998 was 116,773, which is approximately 23 per cent more than that of the previous year. The increase in the number of privately owned vehicles will be a key contributor to the future growth in traffic volume.



Passenger traffic volume in Zhejiang Province has been rising consistently, which increased to 43.63 billion persons-km in 1998, an increase of approximately 4.4 per cent over that of 1997.

A slight decline in the volume of transporting freight was recorded in 1998 at 25.71 billion tonnes km. It was down approximately 2 per cent from that of 1997.





### Toll revenue

In 1998 the toll revenue of the operating sections of the Shanghai-Hangzhou-Ningbo Expressway, the East Connecting Road and the operating sections of the Shangyu-Sanmen Expressway, amounted to Rmb526,485,000, Rmb41,017,000 and Rmb91,003,000 respectively. The toll revenue of the Company reached Rmb658,505,000 in 1998 which was derived mainly from these highways.

### Shanghai-Hangzhou-Ningbo Expressway

The overall length of the Shanghai-Hangzhou-Ningbo Expressway is approximately 247.6km and forms part of the twelve National Trunk Roads planned by the Central Government. The Shanghai-Hangzhou-Ningbo Expressway is the only expressway directly linking the three major cities of Shanghai, Hangzhou and Ningbo, all of which are densely populated and important industrial and commercial centres located in the southeast coastal economic development zones.

The Shanghai-Hangzhou-Ningbo Expressway comprises the Shanghai-Hangzhou Expressway and the Hangzhou-Ningbo Expressway. The respective mileages and dates of commencing operation of the different sections of the Shanghai-Hangzhou Expressway and Hangzhou-Ningbo Expressway are as follows:

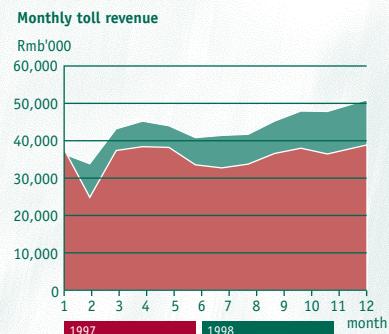
Sections	Mileage	Date of commencing operation
<b>Hangzhou-Ningbo Expressway</b>		
Hangzhou-Xiaoshang Section	7.0km	April 1992
Xiaoshang-Shangyu Section	74.1km	December 1995
Shangyu-Ningbo Section	63.9km	December 1996
<b>Shanghai-Hangzhou Expressway</b>		
Hangzhou Section	3.4km	December 1995
Yuhang Section	9.8km	December 1995
Jiaxing Section	1.3km	December 1998
	88.1km	December 1998

By the end of 1998, a total of 247.6km of Shanghai-Hangzhou-Ningbo Expressway was opened to traffic.

## Management Discussion and Analysis

### Toll revenue

The operating sections of the Shanghai-Hangzhou-Ningbo Expressway from Yuhang to Ningbo with a total length of 158.2km generated toll revenue of Rmb526,485,000 in 1998, representing an increase of 22.7 per cent from the previous year.

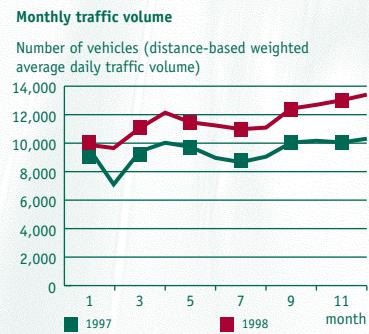


### Traffic volume

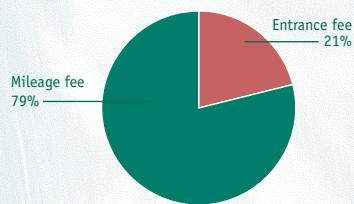
In 1998, the average daily full trip traffic volume of operating sections in the Shanghai-Hangzhou-Ningbo Expressway amounted to 11,617 vehicles, representing an increase of 22.9 per cent from 1997.

The outstanding performance in terms of traffic volume and toll revenue of the operational sections of the Shanghai-Hangzhou-Ningbo Expressway in 1998 was principally attributable to the following:

- The GDP of Zhejiang Province achieving a growth rate of 10.1 per cent in 1998.
- Drivers' preference of commuting via the Shanghai-Hangzhou-Ningbo Expressway.
- Completion of the construction of the two interchanges leading to the Hangzhou toll station in December 1997. This has facilitated traffic flow between the Shanghai-Hangzhou-Ningbo Expressway and the Hangzhou city centre and thereby increased the toll revenue.
- The Company's adoption of several marketing measures, including:
  - conducting surveys in places where traffic volume of heavy vehicles is high;
  - conducting comparative analysis among the costs of commuting via expressways, national roads and provincial roads, and publicising the benefits of using the Group's expressways to drivers; and
  - putting up road signs on other roads and in neighbouring cities so as to direct drivers to the Shanghai-Hangzhou-Ningbo Expressway.



Composition of entrance fee and distance-based mileage fee (1998)

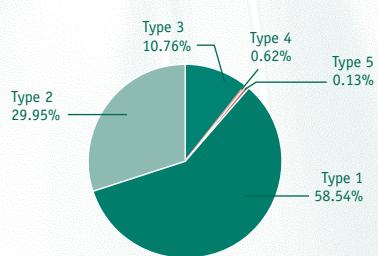


### Entrance Fees and Distance-Based Mileage Fees

The toll revenue of the Shanghai-Hangzhou-Ningbo Expressway comprises two parts, namely entrance fees and distance-based mileage fee. Entrance fees range from Rmb5.00 to Rmb25.00 according to vehicle types, while distance-based mileage fees range from Rmb0.40 to Rmb2.00 per km. travelled according to vehicle types.

Out of the toll revenue of the Shanghai-Hangzhou-Ningbo Expressway in 1998, entrance fees totalled Rmb110,560,000, while distance-based mileage fees amounted to Rmb415,925,000, representing 21 per cent (1997: 20 per cent) and 79 per cent (1997: 80 per cent), respectively, of the said toll revenue.

Composition of vehicle types (1998)



### Vehicle Types

The Company classifies the vehicles using the Shanghai-Hangzhou-Ningbo Expressway into the following five types and each has a different toll rate.

#### Current toll rates:

Year	Type 1	Type 2	Type 3 Minibuses	Type 4	Type 5					
	Cars, vans and trucks of 2 tons or less	Buses and trucks of over 2 tons but not more than 5 tons	and trucks of over 5 tons but not more than 10 tons	Trucks of over 10 tons but not more than 20 tons	Trucks over 20 tons					
	E 5.00	D 0.40	E 10.00	D 0.80	E 15.00	D 1.20	E 20.00	D 1.60	E 25.00	D 2.00
1997										
and 1998										

Notes: "E" denotes entrance fee per vehicle in Rmb.

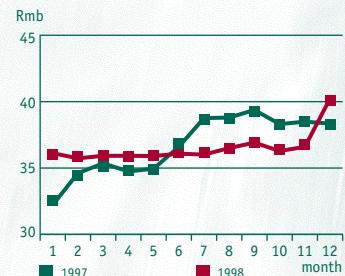
"D" denotes distance related toll per vehicle-km in Rmb.

## Management Discussion and Analysis

### Toll rate per vehicle

The toll rate per vehicle refers to the average toll rate charged per vehicle using the Shanghai-Hangzhou-Ningbo Expressway. In 1998, toll rate per vehicle which was similar to that of 1997 was Rmb36.45. In the light of the entire Shanghai-Hangzhou-Ningbo Expressway being fully operational and the proposed adjustment of the toll rates, a higher toll rate per vehicle is expected in 1999.

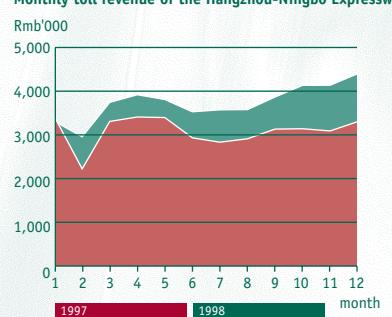
Toll per vehicle



### Hangzhou-Ningbo Expressway

The overall length of the Hangzhou-Ningbo Expressway is 145.0km. It starts at Penbu in Hangzhou, passes through Xiaoshan, Shaoxing, Shangyu and Yuyao, and ends at Dazhujia in Ningbo.

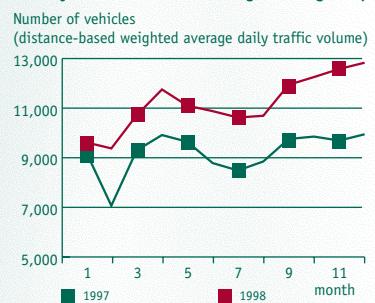
Monthly toll revenue of the Hangzhou-Ningbo Expressway



### Toll revenue

The aggregate toll revenue of the Hangzhou-Ningbo Expressway in 1998 amounted to Rmb449,740,000, representing an increase of 20.4 per cent from 1997.

Monthly traffic volume of the Hangzhou-Ningbo Expressway



### Traffic volume

In 1998, the average daily full trip traffic volume of the Hangzhou-Ningbo Expressway amounted to 11,165 vehicles, rising by 21.4 per cent from 1997.

### Traffic management system

For the purpose of upgrading the Hangzhou-Ningbo Expressway's toll collection system and installing traffic monitoring, communications and lighting systems on this expressway, installation of such system is being undertaken by the Company through Zhejiang Provincial Expressway Executive Commission. The traffic monitoring, communications and lighting systems have already been installed and are now operational. The new toll collection system is expected to be fully operational in the middle of 1999.

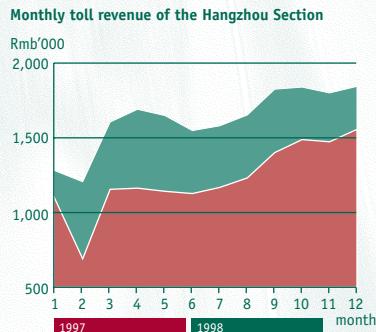


### Shanghai-Hangzhou Expressway

The Shanghai-Hangzhou Expressway has a total length of 102.6km, and comprises the Hangzhou, Yuhang and Jiaxing sections.

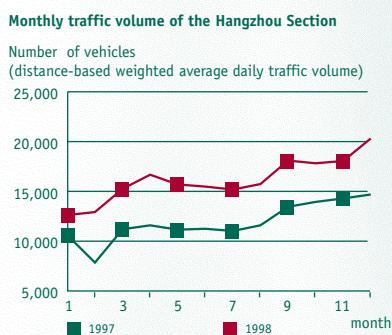
#### Hangzhou Section

The Hangzhou Section of the Shanghai-Hangzhou Expressway has a total length of 3.4km and is one of the busiest sections of the Shanghai-Hangzhou-Ningbo Expressway.



#### Toll revenue

Toll revenue of the Hangzhou Section in 1998 amounted to Rmb19,768,000, representing an increase of 34.7 per cent from 1997.



#### Traffic volume

In 1998, the distance-based weighted average daily full trip traffic volume of the Hangzhou Section amounted to 16,079 vehicles, rising by 36.8 per cent from 1997.

### Yuhang Section

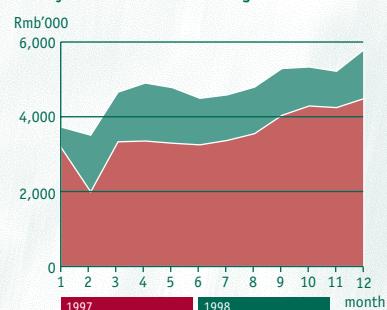
The Yuhang Section of the Shanghai-Hangzhou-Ningbo Expressway has a total length of 11.1km long of which only 9.8km was opened to traffic in 1998. It is also one of the busiest sections of the Shanghai-Hangzhou-Ningbo Expressway. The remaining 1.3km of Yuhang Section was opened to traffic together with the Jiaxing Section on 29th December 1998.

## Management Discussion and Analysis

### Toll revenue

Toll revenue of the Yuhang Section in 1998 amounted to Rmb56,977,000, representing an increase of 34.7 per cent from 1997.

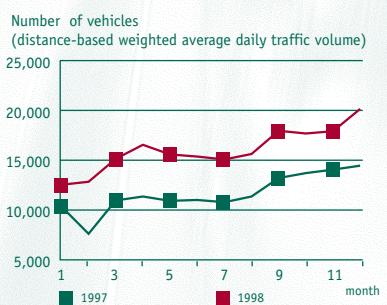
Monthly toll revenue of the Yuhang Section



### Traffic volume

In 1998, the distance-based weighted average daily full trip traffic volume of the Yuhang Section amounted to 16,079 vehicles, rising by 36.8 per cent from 1997.

Monthly traffic volume of the Yuhang Section



### Jiaxing Section

The Jiaxing Section is owned by Jiaxing Co. Construction of this section started on 1st September 1995. The civil engineering tenders involved were selected through international bidding process under the supervision of the World Bank. In addition, the relevant contracts adopted the internationally recognised FIDIC clauses (i.e. the clauses prepared by the Federation Internationale des Ingenieurs-Conseils) which seek to establish a check-and-balance system between the owners and the contractors. During the project's construction, Wilbur Smith & Associates, an international engineering consultant, conducted on-site inspections which helped to ensure the timely completion, and exert reasonable control over the quality and budget, of this project. After more than three years of construction, the Jiaxing Section was opened to traffic on 29th December 1998, three months ahead of the completion date as specified in the contract.

In 1998, Jiaxing Co launched a "Quality 98" programme. The objective of this programme was to ensure, through setting up quality standards and relevant measures, that the stipulated construction specifications of Jiaxing Section were met. The programme achieved satisfactory results. In December 1998, the Shanghai Branch of the Ministry of Communication's Quality Monitoring Centre certified that the Jiaxing Section's road surface flatness coefficient was 0.65mm on average. This was above the relevant national quality standard and is among the best nation-wide.

The tender for the installation of the traffic management system (including monitoring, communications, toll collection and lighting systems) of the Jiaxing Section ("Contract No.11") has commenced. Meanwhile, Jiaxing Co has installed a computerized toll collection system to ensure the efficient operation of the toll collection process.

The Jiaxing Section reached a distance-based weighted-average daily traffic volume of 10,352 vehicles in the first three days of its formal opening to traffic. By comparison, it took more than eight months for the first 84km of the Hangzhou-Ningbo Expressway to reach an average daily full trip traffic volume of 10,000. The Directors believe that the excellent performance of the Jiaxing Section in the first three days of its formal opening to traffic was mainly attributable to the opening of the entire Shanghai-Hangzhou-Ningbo Expressway.

### **Toll Adjustment Application**

Pursuant to the concession agreement relating to the Shanghai-Hangzhou-Ningbo Expressway (the "Concession Agreement") dated 24th March 1997 between the Company and the Zhejiang Provincial Government (the "Provincial Government"), the Company may make an application to adjust the toll rates applicable to the Shanghai-Hangzhou-Ningbo Expressway once every three years. The first adjustment will take place in 1999.

The Concession Agreement stipulates that the Company may submit an application to the Provincial Government for adjusting the toll rates in April 1999. The following preparation work is required of the Company prior to submitting its toll adjustment application:

#### **(1) Surveys**

The management of the Company has been compiling and reviewing information such as historical traffic volume data, travelling speed, toll rates, relevant travelled distances, road conditions and the composition of the vehicle types of the neighbouring national and provincial roads and the Shanghai-Hangzhou-Ningbo Expressway.

#### **(2) Analysis**

The data obtained through such surveys will then be used to construct different toll rate adjustment proposals. After conducting sensitive analysis on all the proposals, the merit of each proposal will be considered on the basis of "achieving maximum overall return" and its chances of being approved by the Provincial Government.

## Management Discussion and Analysis

### (3) Internal consultation

The management will then distribute the proposals to the Company's local management offices and seek their views on the proposals.

According to the Concession Agreement, the Provincial Government is required to issue its official reply to the toll adjustment proposal of the Company by 1st June 1999 and the new toll rates will take effect on or before 1st July 1999.

### Shangyu-Sanmen Road

The Company entered into agreements with six parties including Provincial Investment Co and Huajian Transportation Economic Development Center in October and November 1997 to establish Zhejiang Shangsan Expressway Co., Ltd. ("Shangsan Co", before 28th December 1998 known as Zhejiang Shangsan Highway Company Limited). Shangsan Co was established on 1st January 1998 and the Company has a 51 per cent. ownership interest in its capital. Shangsan Co is principally engaged in the investment in and construction, development and operation of the Shangyu-Sanmen Road which is approximately 143km long. The total investment in the Shangyu-Sanmen Road is approximately Rmb4,300 million. Details of this transaction were set out in the Company's circular to its shareholders dated 14th November 1997.



Phase I of the Shangyu-Sanmen Road, comprising four sections totalling 37.5km, is already operational. In 1998, these four sections recorded a total traffic volume of approximately 7.24 million vehicles and toll revenue of approximately Rmb91,003,000.

Construction of phase II of the Shangyu-Sanmen Road started in February 1998 and is progressing as scheduled at present. As at the end of 1998, the construction costs incurred amounted to approximately Rmb718 million, representing approximately 44.4 per cent of the total contract value. At this rate of progress, the entire Shangyu-Sanmen Road is expected to be completed and operational by the end of 2000.

### Investment Projects

During the year, the Company made two major investments - the setting up of a joint venture company to engage in the operation of gas stations and sale of petroleum products and the purchase of a further stake in the Jiaxing Section.

### Petroleum Project

The Company and Zhejiang Huajing Petroleum Company Limited, an independent third party, established Petroleum Co on 1st July 1998 with a registered capital of Rmb416 million. The Company has a 50 per cent ownership interest in Petroleum Co which is principally engaged in the investment in, construction and operation of gas stations along high-grade roads and other roads in Zhejiang Province and the sale of petroleum products.

Since its establishment, Petroleum Co has been operating with satisfactory results. The number of gas stations under its management grew from 33 (at the time of its establishment) to 65 (as at 31st December 1998). Petroleum Co has plans to increase the number of gas stations under its management to 100 by the end of 1999. For the financial year ended 31st December 1998, the net profit after taxation from Petroleum Co attributable to the Group was approximately Rmb12,418,000.



## Management Discussion and Analysis

### Increase in stake in the Jiaxing Section

The Company entered into an agreements with each of Zhejiang Jiaxing Road and Bridge Construction and Development Company, Jiaxing Suburb Yitong Development Company, Jiashan County Yintong Development Company, Haining Hengtong Development Company and Tongxiang Huatong Company on 8th December 1998. Pursuant to the agreement, the Company agreed to purchase from them an aggregate of approximately 30.75 per cent interest in the capital of Jiaxing Co for a total consideration of approximately Rmb914,700,000. As a result, the Company's interest in the capital of Jiaxing Co has increased from approximately 53.45 per cent to approximately 84.19 per cent. Details of this acquisition were set out in the Company's circular to its shareholders dated 18th December 1998.

### Use of IPO Proceeds

The net proceeds of the initial public offering of the H shares of the Company (the "IPO") in 1997 amounted to approximately Rmb3,524 million. Details of the applications of such proceeds as at 31st December 1998 are set out below:

- Approximately Rmb534.45 million was applied as capital contribution to Jiaxing Co for completing construction works of the Jiaxing Section.
- Approximately Rmb5.34 million was used in relation to Contract No. 8.
- Approximately Rmb637.48 million was used towards repayment of loans and payment of interest.
- Approximately Rmb 29.4 million was used to purchase approximately 2.44 per cent of the registered capital of Jiaxing Co.
- At the time of the Company's listing, approximately Rmb900 million was reserved for the potential investment in the Huzhou Section of the Hangzhou-Nanjing Expressway. However, after looking into this project further, and considering that: (i) it was expected that the entire Hangzhou-Nanjing Expressway would not be completed and opened to traffic in the next few years; and (ii) the Jiaxing Section (and the entire Shanghai-Hangzhou-Ningbo Expressway) would be opened to traffic in the end of December 1998 and start generating income, the Company decided to use this portion of the IPO proceeds for the acquisition of an approximately 30.748 per cent interest in aggregate in the capital of Jiaxing Co (the "Jiaxing Acquisition") instead. The total consideration in relation to the Jiaxing Acquisition is

approximately Rmb914,700,000, and is funded entirely by the IPO proceeds. Half of the acquisition consideration was paid at the end of December 1998, and the balance would have been paid by 31st March 1999.

- Approximately Rmb813.45 million was used as capital contribution to Shangsan Co (The balance of the capital contribution in the sum of approximately Rmb410.55 million will be paid in 1999 and 2000).
- Approximately Rmb38 million was used as capital contribution to Petroleum Co.

As at 31st December 1998, the balance of the IPO proceeds of approximately Rmb1,008.55 million was deposited in commercial banks in the PRC and used as short term investments.

### **The Year 2000 Problem**

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.

To ensure that the Group's computer systems involved in its operations are Year 2000 compliant, 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, and assessed their potential impacts. The internal review was completed in June 1998.

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 has been installed in the second half of 1998. The supplier of this system has confirmed that this system is Year 2000 compliant. In addition, the Group has performed comprehensive testing on all of its computer systems so as to ensure that they are Year 2000 compliant. 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.

## Management Discussion and Analysis

The revenue of the Group is principally derived from toll collection, which are cash transactions, and the 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 Group's computer systems necessary for the purposes of its business operations are Year 2000 compliant.

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 has closely monitored the Group's dealings with banks and financial institutions and will continue to do so 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.

### Effects of Recent Asian Economic Developments on the Company

In 1998, the PRC economy performed better than many other economies in Asia. Although its momentum slowed down, the PRC economy was still able to maintain a relatively high rate of growth. According to the data received by the State Statistics Bureau, the PRC economy achieved a GDP growth rate of 7.8 per cent and Zhejiang Province achieved a GDP growth rate of 10.1 per cent, which is higher than the national average. Nevertheless, the Asian recession, as well as its far-reaching financial crisis, has adversely affected the economies and stock markets within the region as well as the performance of the Company's stock price.

However, the Company was still able to record substantial growth in both turnover and profit. The Company's core asset, the Shanghai-Hangzhou-Ningbo Expressway, was fully opened to traffic in December 1998, and the Company is confident of its business prospects and growth. Therefore, the Company further increased its interest in the capital of Jiaxing Co by approximately 30 per cent before the opening of the Jiaxing Section. Prior to the acquisition of further ownership interest in the Jiaxing

Section, the Company appointed professional traffic consultants to conduct a new independent traffic forecast study for the Jiaxing Section (a summary of the forecast study was included in the Company's circular to its shareholders dated 18th December 1998), and formulated the terms of the acquisition on the basis of new forecast findings.

### Outlook for 1999

1999 will be a challenging year for the Company. In the coming year, the Company will focus on:

- providing safe, comfortable and convenient services to the travellers of its expressways;
- completing the toll rate adjustment for the Shanghai-Hangzhou-Ningbo Expressway with a view to "achieving maximum overall return";
- increasing efficiency by attempting to introduce non-stop toll collection lanes at toll stations and stored value IC cards for toll collection;
- introducing further marketing strategies to attract more vehicles using the Shanghai-Hangzhou-Ningbo Expressway;
- exploring and developing the advantage of its expressways so as to increase their value;
- taking advantage of the government's current policy on encouraging infrastructure investment to search for high-quality projects in Zhejiang Province in order to increase shareholders' returns. The Company will focus on investing in large road projects which can provide satisfactory returns. The Company will continue to maintain, or establish, contact with local governments and enterprises in order to collect information for internal feasibility studies;
- increasing management and cost control; and
- further strengthening communications with its shareholders and investors so as to increase the Company's transparency.

## Management Discussion and Analysis

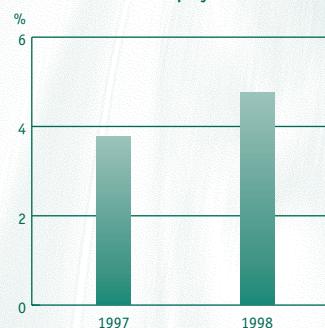
### Financial Review

The Company recorded a profit before taxation of Rmb525 million in 1998, representing an increase of approximately Rmb177 million or approximately 51 per cent over 1997 (before exceptional item). Profit attributable to shareholders grew by approximately 30 per cent to approximately Rmb385 million.

#### Return on shareholders' equity

	1998 Rmb'000	1997 Rmb'000
Profit attributable to shareholders	385,258	296,332
Shareholders' equity	8,120,037	8,200,068
Return on shareholders' equity	4.74%	3.61%

Return on shareholders' equity



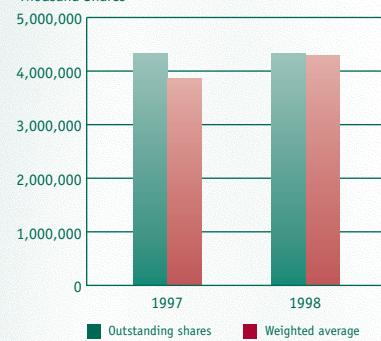
Such benchmark increased by 1.13 per cent from 3.61 per cent in 1997 to 4.74 per cent in 1998. Given that new road projects bring about a "ramp-up effect" where the traffic volume of the new roads have a substantial growth during the first few years at the commencement of its operation and then gradually become steady, it is expected that the return on shareholders' equity will continue to improve in the next few years.

#### Earnings per share

	1998	1997
Outstanding shares (Thousand shares)	4,343,115	4,343,115
Weighted average (Thousand shares)	4,343,115	3,812,785
Profit attributable to shareholders (Rmb'000)	385,258	296,332
Basic earnings per share (Rmb cent)	8.87	7.77

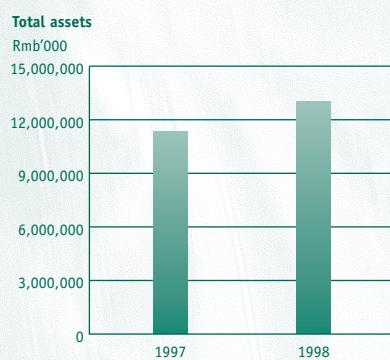
Earnings per share

Thousands of shares



Earnings per share grew Rmb1.1 cents to Rmb8.87 cents in 1998, representing an increase of 14 per cent compared with that of Rmb7.77 cents in 1997. The increase was due to the growth of 30 per cent in its profit attributable to shareholders. The Company did not issue any new shares during 1998. However, the issue of 1.434 billion H Shares by the Company in 1997 resulted in an increase of 13.9 per cent in its shares on weighted average.

### Assets



Assets	1998 Rmb'000	1997 Rmb'000	Fluctuation Rmb'000	Fluctuation %
<b>Current assets</b>				
Accounts receivable and prepayments	301,698	1,044,481	(742,783)	(71)
Inventories	1,851	400	1,451	363
Profits tax refundable	36,615	17,172	19,443	113
Bank balances and cash	1,288,614	2,896,611	(1,607,997)	(56)
Short term investments	994,274	21,991	972,283	4,421
<b>Total current assets</b>	<b>2,623,052</b>	3,980,655	(1,357,603)	(34)
<b>Fixed assets</b>	<b>8,673,002</b>	5,571,783	3,101,219	56
<b>Interest in an associated company</b>				
Construction in progress	1,189,187	1,643,231	(454,044)	(28)
Deferred costs	4,928	3,181	1,747	55
Expressway operating rights	249,445	256,378	(6,933)	3
Long term investments	11,149	11,149	0	0
<b>Total assets</b>	<b>12,971,481</b>	11,466,377	1,505,104	13

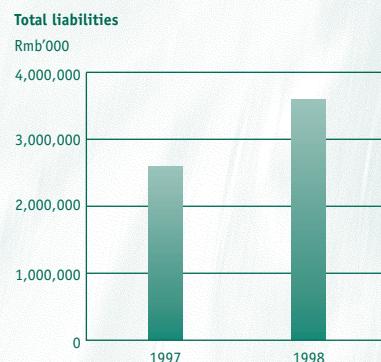
Total current assets dropped by approximately Rmb1.358 billion or approximately 34 per cent due to the investment in new projects. Short term investments mainly represented investment in the treasury bonds issued by the Ministry of Finance in which the Company invested using its surplus capitals, the yield of which is normally higher than the interest rate of banks' deposits in the corresponding period. The Company and Shangsan Co held treasury bonds with face values of approximately Rmb707 million and Rmb257 million, respectively. In anticipation of the continuous growth in investment and construction, the amount of such treasury bonds held will be gradually reduced. Moreover, the opening of the entire Shanghai-Hangzhou Expressway, combined with the operation of the operational section of the Shangyu-Sanmen Road, resulted in an increase of 56 per cent in fixed assets and a decrease of 28 per cent in construction in progress.

As of 31st December 1998, the total assets of the Group reached approximately Rmb13 billion, representing an increase of approximately 13 per cent compared with that of 1997.

## Management Discussion and Analysis

### Liabilities

Liabilities	1998 Rmb'000	1997 Rmb'000	Fluctuation Rmb'000	Fluctuation %
Current liabilities				
Accounts payable and accrued charges	1,336,606	371,517	965,089	260
Short-term loans	520,191	528,701	(8,510)	(2)
Total current liabilities	1,856,797	900,218	956,579	106
Long term liabilities				
Long term bank loans	0	125,000	(125,000)	(100)
Other loans	1,746,583	1,570,335	176,248	11
Deferred taxation	2,282	3,042	(760)	(25)
Total long term liabilities	1,748,865	1,698,377	50,488	3
Total liabilities	3,605,662	2,598,595	1,007,067	39



Due to the increase in amounts payable arising from the settlement of construction costs, the total liabilities grew from approximately Rmb2.6 billion at the financial year end of 1997 to approximately Rmb3.6 billion, representing an increase of 39 per cent. Other loans comprise the World Bank loans and the loans from the Chinese government.

### Debts in US dollars

On 31st December 1998, the Group had debts in US dollars amounting to approximately USD199 million, of which USD108 million, USD83 million and USD8 million were attributable to the debts of the Company, Jiaxing Co and Yuhang Co, respectively. All such debts in US dollars were the World Bank loans bearing floating interest rates. The portion of these loans attributable to the Company carried an interest rate equal to the Qualified Borrowing Costs determined by the World Bank plus 50 basis points (the latest interest rate being 7.54 per cent per annum), while those attributable to Jiaxing Co and Yuhang Co carried an interest rate equal to LIBOR plus 50 basis points (the latest interest rate being 6.54 per cent per annum).

The Group's deposits amounted to USD64 million in the late 1998, which were used to reduce the exchange risk exposure.

## Management Discussion and Analysis

### Net-debt-to-equity ratio

	1998	1997
Net-debt-to-Equity Ratio (Note 1)	<b>Cash</b>	Cash
Net-debt-to-Equity Ratio (Note 2) (exclude Short term investments)	<b>12%</b>	Cash

Note: 1. Net debt is defined as all loans net of bank balances, cash and short term investments.

2. Net debt is defined as all loans net of bank balances and cash.

### Capital Structure

The capital structure of the Group is summarised as below:

	1998			1997		
	Rmb'000	percentage	Average interest rate	Average interest rate		
				Rmb'000	percentage	rate
Shareholders' equity	8,120,037	78.2%	—	8,200,068	78.7%	—
Fixed rate liabilities	615,043	5.9%	6%	756,608	7.2%	7%
Floating rate liabilities	1,651,731	15.9%	7.3%	1,417,833	14.1%	6.5%
Total	<b>10,386,811</b>	<b>100%</b>	<b>—</b>	<b>10,424,104</b>	<b>100%</b>	<b>—</b>

Shareholders' equity decreased by approximately Rmb80 million in 1998. Nevertheless, the shareholders' equity as a percentage of total capital remained basically unchanged as against 1997. The decrease in shareholders' equity was mainly due to the Company's acquisition of the interest in Jiaxing Co at a premium.

The average interest rate of fixed rate liabilities declined by 1 per cent, mainly because of the easing of interest rates in domestic market and provision of low interest rate loans by the Chinese government for road projects. The average interest rate of floating rate liabilities was up by approximately 0.8 per cent as against a year earlier primarily due to an increase in the Qualified Borrowing Costs of some of the World Bank loans granted to the Group.

### Capital commitments

The capital commitments of the Company and the Group as at 31st December 1998 are set out in note 27 to the financial statements.

## Report of the Directors

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The Directors herein present their report and the results of the Group for the year ended 31st December 1998.

### **Principal activities**

The Group's principal activities have not changed during the year and consisted of the investment in the construction, operation and management of high grade roads, as well as the development and operation of certain ancillary services, such as automobile servicing and fuel facilities ("Expressway Operations").

### **Segmented information**

During the year, the entire turnover and contribution to the operating profit of the Group was derived from toll income earned from Expressway Operations in Zhejiang Province, the PRC. Accordingly, a further analysis of the turnover and contribution to operating profit by principal activity and geographical area is not presented.

### **Results and dividends**

The Group's profit for the year ended 31st December 1998 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 47 to 77.

The Directors recommend the payment of a dividend of Rmb0.035 (approximately HK\$0.033) per share in respect of the year to shareholders whose names appear on the register of members on 6th April 1999. This recommendation has been incorporated in the financial statements.

## Report of the Directors

### Summary financial information

The only published Group consolidated profit and loss account and consolidated balance sheet are as set out on pages 47 and 51 of the financial statements. The following is a summary of the pro forma consolidated results of the Group prepared on the basis set out in the notes below:

Results	Year ended 31st December				
	1998 Rmb'000	1997 Rmb'000	1996 Rmb'000	1995 Rmb'000	1994 Rmb'000
Turnover	623,614	439,789	273,843	59,105	49,331
Operating Profit before					
Exceptional Item	505,609	346,871	159,964	41,965	36,351
Exceptional Item	—	25,355	—	—	—
Operating Profit	505,609	372,226	159,964	41,965	36,351
Share of Profit of					
an Associated Company	18,982	—	—	—	—
Profit before Taxation	524,591	372,226	159,964	41,965	36,351
Taxation	(70,419)	(58,639)	(60,296)	(16,378)	(13,915)
Profit before Minority					
Interests	454,172	313,587	99,668	25,587	22,436
Minority Interests	(68,914)	(17,255)	186	—	—
Net Profit Attributable					
to Shareholders	385,258	296,332	99,854	25,587	22,436
Earnings per Share	8.87 cents	7.77 cents	3.43 cents		

#### Notes:

1. The pro forma consolidated results of the Group for the four years ended 31st December 1997 have been extracted from the Company's 1997 annual report dated 24th March 1998, while those of the year ended 31st December 1998 were prepared based on the consolidated profit and loss account as set out on page 47 of the financial statements.
2. The 1998 earnings per share is based on the net profit attributable to shareholders for the year ended 31st December 1998 of Rmb385,258,000 (1997:Rmb296,332,000) and 4,343,114,500 shares (1997: the weighted average of 3,812,785,000 shares).

### Major customers and suppliers

The five largest customers and suppliers contributed to less than 30% of the total toll revenue and purchases, respectively, of the Group during the year. Accordingly, a corresponding analysis of major customers and suppliers is not presented.

### Connected transactions

Details of the connected transactions ("Connected Transactions") of the Group carried out in the year which the Stock Exchange has granted a waiver from compliance with Chapter 14 of the Listing Rules pursuant to its letter of 14th May 1997, are disclosed in note 30 to the financial statements.

Another connected transaction of the Group carried out in 1998 was the Jiaxing Acquisition details of which are set out under the heading "Increase in stake in the Jiaxing Section" in the "Business Review" section of "Management Discussion and Analysis" on page 26 of this report. The press announcement of the Company dated 8th December 1998 and the circular to the shareholders of the Company dated 18th December 1998 contain further details of the Jiaxing Acquisition. In addition, in the opinion of the independent non-executive Directors, the terms of the Jiaxing Acquisition are fair and reasonable so far as the shareholders of the Company are concerned.

The executive Directors and (as required by the Stock Exchange in its letter of 14th May 1999) the independent non-executive Directors have reviewed the Connected Transactions and confirmed that, during the period from 1st January 1998 to 31st December 1998, such transactions were:-

- (i) carried out in accordance with the terms of the agreements relating to such transactions by, entered into in the usual and ordinary course of business of, and entered into on normal commercial terms by, the Company or its subsidiaries (as relevant); and
- (ii) fair and reasonable so far as the shareholders of the Company are concerned.

Ernst & Young, the auditors of the Company, (as required by the Stock Exchange in its letter of 14th May 1997) have also reviewed the said transactions and have confirmed that the board of Directors of the Company has given its approval of these transactions and they were carried out by the Company or its subsidiaries (as relevant) in accordance with the terms of the agreements relating to such transactions during the said period.

## Report of the Directors

### Fixed assets

Details of movements in the fixed assets of the Company and the Group are set out in note 8 to the financial statements.

### Capital commitments

Details of the capital commitments of the Company and the Group as at 31st December 1998 are set out in note 27 to the financial statements.

### Subsidiaries

Particulars of the Company's subsidiaries are set out in note 9 to the financial statements.

### Interest capitalization

During the year, interest capitalized as part of the costs of construction in progress and fixed assets amounted to approximately Rmb78,964,000.

### Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 25 to the financial statements.

### Substantial shareholder

As at 31st December 1998, the following shareholder held 10% or more of the share capital of the Company according to the register of interests in shares required to be kept by the Company pursuant to Section 16(1) of the Securities (Disclosure of Interest) Ordinance ("SDI Ordinance"):

	Number of shares	Percentage
Zhejiang Provincial High Class Highway Investment Company Limited	2,909,260,000 (domestic shares)	66.99%

### Purchase, sale or redemption of the Company's listed securities

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

### Bank loans and other loans

Particulars of the bank loans and other loans of the Company and the Group are set out in notes 19 and 20 to the financial statements.

### Trust deposits

As at 31st December 1998, 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. All of the Company's deposits have been placed with commercial banks in the PRC and Hong Kong and the Company has not encountered any difficulty in withdrawal.

### Use of IPO proceeds from the issue of H Shares

The net IPO proceeds of the Company in 1997 amounted to approximately Rmb3,524 million. Details of the applications of such proceeds as at 31st December 1998 are set out below:

- Approximately Rmb534.45 million was applied as capital contribution to Jiaxing Co for completing construction works of the Jiaxing Section
- Approximately Rmb5.34 million was used in relation to Contract No. 8
- Approximately Rmb637.48 million was used towards repayment of loans and payment of interest
- Approximately Rmb29.4 million was used to purchase approximately 2.44 per cent of the registered capital of Jiaxing Co
- At the time of the Company's listing, approximately Rmb900 million was reserved for the potential investment in the Huzhou Section of the Hangzhou-Nanjing Expressway. However, after looking into this project further, and considering that: (i) it was expected that the entire Hangzhou-Nanjing Expressway would not be completed and opened to traffic in the next few years; and (ii) the Jiaxing Section (and the entire Shanghai-Hangzhou-Ningbo Expressway) would be opened to traffic in the end of December 1998 and start generating income, the Company decided to use this portion of the IPO proceeds for the Jiaxing Acquisition instead. The total consideration in relation to the Jiaxing Acquisition is approximately Rmb914,700,000, and is funded entirely by the IPO proceeds. Half of the acquisition consideration was paid at the end of December 1998, and the balance will be paid by 31st March 1999
- Approximately Rmb813.45 million was used as capital contribution to Shangsan Co (The balance of the capital contribution in the sum of approximately Rmb410.55 million will be paid in 1999 and 2000)
- Approximately Rmb38 million was used as capital contribution to Petroleum Co

As at 31st December 1998, the balance of the IPO proceeds of approximately Rmb1,008.55 million was deposited in commercial banks in the PRC and Hong Kong and used as short term investments.

## Report of the Directors

### Taxation

Details of taxation are set out in note 4 to the financial statements. The Company is not aware of any government policy changes such that the preferential tax treatment set out in the above mentioned note will cease to be available to the Company and three of its subsidiaries namely, Jiaxing Co, Yuhang Co and Shangsan Co.

### Directors

The Directors during the year were:

#### *Executive Directors*

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

#### *Independent Non-executive Directors*

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

All the Directors were appointed on 1st March 1997. In accordance with the Company's articles of association, all the Directors continue to be in office.

### Directors' and Supervisors' service contracts

Each of the Directors and supervisors ("Supervisors") of the Company has entered into a service agreement with the Company with effect from 1st March 1997, for an initial term of three years.

Save as disclosed above, none of the Directors and Supervisors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

### Directors' and Supervisors' interests in contracts

None of the Directors or Supervisors had any material interest whether directly or indirectly in any contract of significance to which the Company or any of its subsidiaries or fellow subsidiaries or its holding company was a party, at the end of the year or at any time during the year.

### Directors' and Supervisors' interests in shares

At 31st December 1998, none of the Directors, Supervisors or their associates had any personal, family, corporate or other interests in any

equity or debt securities of the Company or any associated corporation (as defined in the SDI Ordinance) as recorded in the register required to be kept under section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies.

**Directors' and Supervisors' rights to subscribe for shares or debentures**

At no time during the year was the Company or any of its subsidiaries, fellow subsidiaries or its holding company a party to any arrangement enabling any Directors or Supervisors or the spouses or children under the age of 18 of any such Directors or Supervisors to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate. No rights to subscribe for shares in or debentures of the Company have been granted by the Company to, nor have any such rights been exercised by, any person during the year and up to the date of this report.

**Directors' and Supervisors' remuneration**

	<b>Rmb'000</b>
Fees	—
Basic salaries, housing, other allowances and benefits in kind	1,166
Pension scheme contributions	—
Bonuses paid and payable	—
	<hr/> 1,166

None of the Directors or Supervisors received remuneration in excess of HK\$1 million.

The amount disclosed above included remuneration of HK\$100,000 paid to each of the independent non-executive Directors. There was no arrangement under which any of the Directors or Supervisors waived or agreed to waive any remuneration.

**Highest paid individuals**

The five highest paid individuals of the Company were all Directors. The aggregate amount paid to them for the year was approximately Rmb708,755. None of them received remuneration in excess of HK\$1 million.

**Retirement scheme**

As required by the State regulations of the PRC, the Group participates in a defined contribution retirement scheme. All employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at

## Report of the Directors

their retirement date. The Group is required to make contributions to registered insurance companies at rates ranging from 20% to 21% of the average basic salaries of the previous year within the geographical area where the employees are under employment with the Group. The Group has no obligation for the payment of pension benefits beyond such annual contributions to the registered insurance companies. When an employee leaves the scheme, the Company is not entitled to forfeit any amount of contribution it made. Hence no forfeited contribution was used by the Company to reduce the level of its contributions during the year.

### **Pre-emptive rights**

There is no provision for pre-emptive rights in the Company's articles of association or the laws of the PRC which would require the Company to offer new shares on a pro rata basis to existing shareholders.

### **Accommodation benefits for employees**

According to the relevant rules and regulations in the PRC, the Group and its employees are required to contribute to an accommodation fund, a certain percentage of the salaries and wages of its employees. There are no further obligations beyond the contribution to the accommodation fund. During the year, in addition to the contribution made to the housing fund as required by relevant rules and regulations in the PRC, the Company purchased and fully paid for Rmb19 million worth of apartments. The Company planned to sell those apartments to eligible staff to be determined in 1999 at a discount of approximately 80% when the constructions of the apartments are completed. Accordingly, the Company made provision for the eventual estimated loss on their disposal of Rmb15.3 million in the year. Save as disclosed above, the Company did not own any staff quarters and did not dispose of any staff quarters during the year.

### **Charitable contributions**

During the year, the Group made charitable contributions totalling Rmb1 million.

**Year 2000 compliance**

Details of the Year 2000 compliance are set out under the heading "The Year 2000 Problem" in the "Business Review" section of the "Management Discussion and Analysis" on page 27 of this report.

**Compliance with the Code of Best Practice**

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities issued on The Stock Exchange of Hong Kong Limited.

**Auditors**

Ernst & Young will retire and a resolution for their reappointment as international auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Geng Xiaoping**

*Chairman and General Manager*

Hangzhou, Zhejiang Province, the PRC

25th February 1999

## Report of the Supervisory Committee

**Dear Shareholders,**

The Supervisory Committee, which comprises three supervisors, was established upon the incorporation of the Company in accordance with the Company Law of the People's Republic of China and the articles of association of the Company. The major tasks of the Supervisory Committee are to carry out the supervisory duties according to law and protect the lawful rights and interests of the shareholders and the Company. The scope of its task includes :

1. supervising the Directors, general manager and other senior management staff. The Supervisory Committee supervises the acts of the Directors, general manager and other senior management staff in business operations and daily affairs mainly by attending board meetings and participating in major events of the Company; and
2. examining the operation and financial conditions of the Company.

The Supervisory Committee is of the opinion that the Directors, general manager and other senior management staff of the Company have implemented all the resolutions passed in general meetings in good faith, and they have been fully committed to their jobs and have conducted the business according to the applicable laws. The Supervisory Committee is not aware of any act of the Company or any members of the board which violates any law, regulation or provisions of the articles of association of the Company.

The Company has not engaged in any major litigation and there has been no dispute between any representative of the Supervisory Committee and any of the Directors and no litigation has been instituted against any of the Directors.

The Supervisory Committee has examined the financial reports for the year 1998 prepared by the domestic and the international accountants which the Directors intend to deliver to the shareholders. In our opinion, these reports have been prepared in compliance with the relevant laws, regulations and provisions of the articles of association of the Company and give a true and fair view of the operating results and asset position of the Company.

On behalf of the Supervisory Committee

**Xia Linzhang**

*Chairman of the Supervisory Committee*

Hangzhou, Zhejiang Province, the PRC

25th February 1999

## Report of the International Auditors

## Report of the International Auditors



To the shareholders

**Zhejiang Expressway Co., Ltd.**

(Established in the People's Republic of China with limited liability)

We have audited the financial statements on pages 47 to 77 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion the financial statements give a true and fair view, in all material respects, of the state of affairs of the Company and the Group as at 31st December 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**

Certified Public Accountants

Hong Kong

25th February 1999

**Consolidated Profit and Loss Account**

For the year ended 31st December 1998

		Period from 1st March 1997 (date of establishment)	to 31st December
	Notes	1998 Rmb'000	1997 Rmb'000
TURNOVER	2	623,614	376,785
OPERATING PROFIT BEFORE			
EXCEPTIONAL ITEM	3	505,609	329,044
Exceptional item		—	25,355
OPERATING PROFIT		505,609	354,399
Share of profit of an associated company		18,982	—
PROFIT BEFORE TAXATION		524,591	354,399
Taxation	4	(70,419)	(53,085)
PROFIT BEFORE MINORITY INTERESTS		454,172	301,314
Minority interests		(68,914)	(15,986)
NET PROFIT ATTRIBUTABLE			
TO SHAREHOLDERS	5	385,258	285,328
RETAINED PROFITS AT BEGINNING			
OF YEAR/PERIOD		170,585	—
Transferred to reserves	25	(75,656)	(45,253)
Dividends	6	(152,009)	(69,490)
RETAINED PROFITS AT END OF			
YEAR/PERIOD		328,178	170,585
EARNINGS PER SHARE	7	8.87 cents	7.15 cents

The notes on pages 52 to 77 form an integral part of the financial statements.

## Consolidated Balance Sheet

31st December 1998

	Notes	1998 Rmb'000	1997 Rmb'000
FIXED ASSETS	8	8,673,002	5,571,783
INTEREST IN AN ASSOCIATED COMPANY	10	220,718	—
CONSTRUCTION IN PROGRESS	11	1,189,187	1,643,231
DEFERRED COSTS		4,928	3,181
EXPRESSWAY OPERATING RIGHTS	12	249,445	256,378
LONG TERM INVESTMENTS	13	11,149	11,149
		10,348,429	7,485,722
CURRENT ASSETS	14	2,623,052	3,980,655
CURRENT LIABILITIES	15	1,856,797	900,218
NET CURRENT ASSETS		766,255	3,080,437
TOTAL ASSETS LESS CURRENT LIABILITIES		11,114,684	10,566,159
LONG TERM BANK LOANS	19	—	125,000
OTHER LONG TERM LOANS	20	1,746,583	1,570,335
DEFERRED TAXATION	23	2,282	3,042
MINORITY INTERESTS		1,245,782	667,714
		8,120,037	8,200,068
SHARE CAPITAL	24	4,343,115	4,343,115
RESERVES	25	3,776,922	3,856,953
		8,120,037	8,200,068

**Geng Xiaoping**  
*Director*

**Ying Shudeng**  
*Director*

The notes on pages 52 to 77 form an integral part of the financial statements.

**Consolidated Cash Flow Statement**

For the year ended 31st December 1998

		Period from 1st March 1997 (date of establishment)	to 31st December
	Notes	1998 Rmb'000	1997 Rmb'000
<b>NET CASH INFLOW FROM</b>			
<b>OPERATING ACTIVITIES</b>	26(a)	610,682	445,150
<b>RETURNS ON INVESTMENTS</b>			
<b>AND SERVICING OF FINANCE</b>			
Interest received		62,941	144,761
Interest paid		(176,845)	(105,455)
Dividends paid		(69,490)	—
Dividends paid to minority interests		(11,058)	(6,145)
<b>Net cash inflow/(outflow) from</b>			
<b>returns on investments</b>			
<b>and servicing of finance</b>		(194,452)	33,161
<b>TAXATION</b>			
Taxes paid		(61,881)	(35,746)
<b>INVESTING ACTIVITIES</b>			
Additions of fixed assets		(566,994)	(8,390)
Decrease/(increase) in time deposits		1,045,423	(2,049,865)
Additions of construction in progress		(928,607)	(624,348)
Prepayment for the Shangyu-Sanmen Road		—	(637,500)
Increase in long term investments		—	(4,849)
Increase in deferred costs		(2,584)	—
Increase in short term investments		(972,283)	(21,991)
Acquisition of a subsidiary	26(c)	640,782	—
Acquisition of an associated company		(208,000)	—
Acquisition of additional interest in			
a subsidiary	26(d)	(457,333)	(29,362)
<b>Net cash outflow from investing activities</b>		(1,449,596)	(3,376,305)
<b>NET CASH OUTFLOW BEFORE</b>			
<b>FINANCING ACTIVITIES</b>		(1,095,247)	(2,933,740)

The notes on pages 52 to 77 form an integral part of the financial statements.

## Consolidated Cash Flow Statement

For the year ended 31st December 1998

		Period from 1st March 1997 (date of establishment)	to 31st December
	Notes	1998 Rmb'000	1997 Rmb'000
<b>NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES</b>		(1,095,247)	(2,933,740)
<b>FINANCING ACTIVITIES</b>			
Issue of share capital		—	3,655,382
Share issue expenses		—	(154,893)
New bank loans	26(b)	410,000	—
New other loans	26(b)	413,668	660,901
Repayment of loans	26(b)	(780,930)	(621,015)
Minority interests	26(b)	489,935	135,069
<b>Net cash inflow from financing activities</b>		<b>532,673</b>	<b>3,675,444</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(562,574)</b>	<b>741,704</b>
Cash and cash equivalents at beginning of year/period		846,746	105,042
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD</b>		<b>284,172</b>	<b>846,746</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
Cash and bank balances		232,883	840,746
Time deposits		51,289	6,000
		<b>284,172</b>	<b>846,746</b>

The notes on pages 52 to 77 form an integral part of the financial statements.

**Balance Sheet**  
31st December 1998

	Notes	1998 Rmb'000	1997 Rmb'000
FIXED ASSETS	8	5,094,481	5,075,424
INTERESTS IN SUBSIDIARIES	9	2,881,518	777,299
INTEREST IN AN ASSOCIATED COMPANY	10	208,000	—
CONSTRUCTION IN PROGRESS	11	107,258	10,633
EXPRESSWAY OPERATING RIGHTS	12	196,445	203,378
		8,487,702	6,066,734
CURRENT ASSETS	14	1,961,980	3,627,944
CURRENT LIABILITIES	15	1,291,394	530,220
NET CURRENT ASSETS		670,586	3,097,724
TOTAL ASSETS LESS CURRENT LIABILITIES		9,158,288	9,164,458
LONG TERM BANK LOANS	19	—	125,000
OTHER LONG TERM LOANS	20	799,599	842,635
DEFERRED TAXATION	23	2,282	3,042
		8,356,407	8,193,781
SHARE CAPITAL	24	4,343,115	4,343,115
RESERVES	25	4,013,292	3,850,666
		8,356,407	8,193,781

**Geng Xiaoping**  
*Director*

**Ying Shudeng**  
*Director*

The notes on pages 52 to 77 form an integral part of the financial statements.

## Notes to Financial Statements

31st December 1998

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of accounting**

The financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice ("HKSSAP"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. This basis of accounting differs from that used in the preparation of the statutory accounts, which are prepared in accordance with accounting principles and financial regulations applicable in the PRC. The primary differences are set out in note 28.

#### **Basis of consolidation**

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended 31st December 1998. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances are eliminated on consolidation.

#### **Goodwill**

Goodwill arising on consolidation of subsidiaries and on acquisition of associated companies represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is written off to reserves in the year of acquisition. On disposal of subsidiaries or associated companies, the relevant portion of attributable goodwill previously eliminated against reserves is written back and included in the calculation of the gain or loss on disposal.

#### **Subsidiaries**

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

#### **Associated company**

An associated company is a company, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associated companies is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's investments in associated companies are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for permanent diminutions in values deemed necessary by the directors.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Associated company (continued)**

The results of associated companies are included in the Company's profit and loss account to the extent of dividends received. The Company's investments in associated companies are stated at cost less any provisions for diminutions in values deemed necessary by the directors.

**Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price, cost transferred from construction in progress and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditures incurred after the tangible fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to the profit and loss account in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the tangible fixed assets, the expenditure is capitalized as an additional cost of the tangible fixed assets.

Depreciation of expressways and bridges is provided by using the sinking fund method whereby the aggregate annual depreciation amounts, compounded at an average rate of 7% per annum, up to the expiry of the underlying 30 year expressway concession period will equal the total cost of the expressways and bridges.

Amortization of land is provided for on a straight-line basis to write off the cost of the land use rights over the underlying 30 year expressway concession period.

Depreciation of fixed assets, other than expressways, bridges and land, is provided for on a straight-line basis to write off the cost of the assets, less their estimated residual values, being 3% of the cost, over their estimated useful lives. The principal annual rates used for this purpose are as follows:

	<b>Estimated useful life</b>	<b>Annual depreciation rate</b>
Toll stations and ancillary facilities	30 years	3.2%
Communications and signalling equipment	10 years	9.7%
Motor vehicles	8 years	12%
Machinery and equipment	5-8 years	12-19.4%

The gain or loss on disposal or retirement of a fixed asset recognized in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## Notes to Financial Statements

31st December 1998

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Construction in progress**

Construction in progress represents costs incurred in the construction of expressways and bridges. Cost comprises direct costs of construction as well as interest charges and certain exchange differences related to funds borrowed during the periods of construction, installation and testing. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and put into use.

#### **Expressway operating rights**

Expressway operating rights represent the rights to operate the expressways and are stated at cost less accumulated amortization.

Amortization is provided on a straight-line basis over the periods of expressway operating rights granted to the Company and its subsidiaries.

#### **Revenue recognition**

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) toll revenue, net of any applicable revenue taxes, when received;
- (b) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (c) on the rendering of services, based on the stage of completion of the transaction, provided that this and the costs incurred as well as the estimated costs to completion can be measured reliably. The stage of completion of a transaction associated with the rendering of services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;
- (d) rental income, on a time proportion basis over the lease term; and
- (e) interest, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

#### **Taxation**

PRC income tax is provided at rates applicable to enterprises in the PRC on income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes, based on existing PRC income tax legislation, practices and interpretations thereof.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Taxation (continued)**

Deferred taxation is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallize in the foreseeable future. A deferred tax asset is not recognized until its realization is assured beyond reasonable doubt.

**Foreign currencies**

The financial records of the Company and its subsidiaries are maintained and the financial statements are stated in Renminbi ("Rmb").

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account unless such exchange differences relate to funds borrowed specifically for the financing of construction of expressways and bridges, in which case they are capitalized to the extent that they can be regarded as an adjustment to interest costs.

**Capitalization of borrowing costs**

Borrowing costs that are directly attributable to the construction of expressways, tunnels and bridges are capitalized as part of the cost of such assets when it is probable that they will result in future economic benefits to the Group and the costs can be measured reliably. Other borrowing costs are recognized as an expense in the period in which they are incurred.

The amount of borrowing costs capitalized is determined by reference to the actual borrowing costs incurred on funds borrowed specifically for the construction of expressways, tunnels and bridges during the period less any investment income arising from the temporary investment of those borrowings.

Capitalization of borrowing costs on funds borrowed specifically for the construction of completed expressway sections ceases when the construction of such expressway sections is completed and the section completed is capable of commencing toll operations.

**Leased assets**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight-line basis over the lease terms.

## Notes to Financial Statements

31st December 1998

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Investments**

Investments held on a long term basis are stated at cost less provisions for any permanent diminutions in values on an individual investment basis.

Short term investments are stated at the lower of cost and market value.

#### **Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis. Net realizable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

#### **Deferred costs**

Deferred costs primarily include deferred pre-operating expenses and are amortized over 5 years starting from the date of commencement of operations. They are stated at cost less accumulated amortization.

#### **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence.

#### **Cash equivalents**

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

## Notes to Financial Statements

31st December 1998

### 2. TURNOVER

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

	Period from 1st March 1997 (date of establishment) to 31st December	
	1998 Rmb'000	1997 Rmb'000
Toll income	658,505	398,468
Less: Revenue taxes	(34,891)	(21,683)
	623,614	376,785

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

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

## Notes to Financial Statements

31st December 1998

### 3. OPERATING PROFIT BEFORE EXCEPTIONAL ITEM

The Group's operating profit before exceptional item is arrived at after charging/(crediting):

	1998 Rmb'000	1997 Rmb'000	Period from 1st March 1997 (date of establishment) to 31st December
Depreciation charges	85,524	58,549	
Operating lease rentals:			
Land and buildings	2,839	1,746	
Interest expense on:			
Bank loans	16,115	29,325	
Other loans	160,730	130,184	
Less: Amounts capitalized in construction in progress and fixed assets	(82,104)	(69,237)	
	94,741	90,272	
Interest income	(74,941)	(119,406)	
Less: Amounts capitalized in fixed assets	3,140	13,623	
	(71,801)	(105,783)	
Interest expense/(income), net	22,940	(15,511)	
Amortization of deferred costs	836	745	
Amortization of expressway operating rights	6,933	4,622	
Provision for anticipated deficit arising on the disposal of staff quarters	15,300	—	
Income from short term investments	(127,494)	(52,347)	
Loss on disposal of fixed assets	2,681	—	
Directors' remuneration:			
Fees	—	—	
Other emoluments	1,166	951	
Auditors' remuneration	1,366	1,006	
Pension cost	2,964	988	
Exchange differences incurred, net	(2,659)	(2,620)	
Less: Amounts capitalized in construction in progress and fixed assets	602	3,021	
Exchange differences, net	(2,057)	401	

## Notes to Financial Statements

31st December 1998

### 4. TAXATION

No Hong Kong profits tax has been provided as the Group had no taxable profits in Hong Kong during the year.

The Group was subject to the Enterprise Income Tax (the "EIT") levied at a rate of 33% of taxable income based on income for financial reporting purposes prepared in accordance with the laws and regulations in the PRC.

Pursuant to a series of directives issued by Zhejiang Provincial People's Government, Municipal Governments of Yuhang and Jiaxing in 1997, the Company, Shangsan Co, Yuhang Co and Jiaxing Co are entitled to respective refund from Zhejiang Finance Bureau or Municipal Finance Bureaus of Yuhang and Jiaxing, of an amount equal to 18% of their taxable income in respect of the EIT paid to the taxation bureaus, respectively. However, there is no assurance that the Company, Shangsan Co, Yuhang Co and Jiaxing Co will continue to enjoy such preferential tax treatment in the future.

	Period from	
	1st March 1997 (date of establishment)	to 31st December
	1998 Rmb'000	1997 Rmb'000
Group:		
Taxation charged	142,703	110,095
Taxation refundable	(77,788)	(60,052)
Deferred - note 23	64,915 (760)	50,043 3,042
Associated company	6,264	—
	70,419	53,085

### 5. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders dealt with in the financial statements of the Company is Rmb314,635,000.

## Notes to Financial Statements

31st December 1998

### 6. DIVIDENDS

#### Company

	Period from	
	1st March 1997 (date of establishment)	to 31st December
	1998 Rmb'000	1997 Rmb'000
Proposed final dividend-Rmb0.035 (approximately HK\$0.033) per share (1997: Rmb0.016 (approximately HK\$0.015) per share)	152,009	69,490

### 7. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit attributable to shareholders for the year of Rmb385,258,000 (1997: Rmb285,328,000) and the 4,343,114,500 shares (1997: the weighted average of 3,986,994,000 shares) in issue during the year.

## Notes to Financial Statements

31st December 1998

### 8. FIXED ASSETS

	Land Rmb'000	Express- ways and bridges Rmb'000	Toll stations and ancillary facilities Rmb'000	Communi- cations and signalling equipment Rmb'000	Motor vehicles Rmb'000	Machinery and equipment Rmb'000	Total Rmb'000
<b>Group</b>							
Cost:							
At 1st January 1998	527,628	4,949,285	70,364	2,304	17,019	63,732	5,630,332
Additions	—	79,663	3,887	6,181	10,101	1,850	101,682
Arising from acquisition of a subsidiary - note 26(c)	—	531,604	13,121	—	4,328	502	549,555
Transferred from construction in progress - note 11	—	2,538,187	—	—	—	—	2,538,187
Disposals	—	—	(3,489)	—	—	(146)	(3,635)
At 31st December 1998	527,628	8,098,739	83,883	8,485	31,448	65,938	8,816,121
Accumulated depreciation:							
At 1st January 1998	6,326	43,406	1,833	181	1,500	5,303	58,549
Provided during the year	11,938	60,117	5,545	220	2,923	4,781	85,524
Written off for disposal	—	—	(949)	—	—	(5)	(954)
At 31st December 1998	18,264	103,523	6,429	401	4,423	10,079	143,119
Net book value:							
At 31st December 1998	509,364	7,995,216	77,454	8,084	27,025	55,859	8,673,002
At 31st December 1997	521,302	4,905,879	68,531	2,123	15,519	58,429	5,571,783
<b>Company</b>							
Cost:							
At 1st January 1998	350,384	4,632,953	65,556	2,304	16,561	63,287	5,131,045
Additions	—	79,663	3,591	6,168	4,093	1,068	94,583
Disposals	—	—	(3,489)	—	—	—	(3,489)
At 31st December 1998	350,384	4,712,616	65,658	8,472	20,654	64,355	5,222,139
Accumulated depreciation:							
At 1st January 1998	6,326	40,660	1,759	181	1,500	5,195	55,621
Provided during the year	11,668	51,638	2,100	220	2,644	4,716	72,986
Written off for disposal	—	—	(949)	—	—	—	(949)
At 31st December 1998	17,994	92,298	2,910	401	4,144	9,911	127,658
Net book value:							
At 31st December 1998	332,390	4,620,318	62,748	8,071	16,510	54,444	5,094,481
At 31st December 1997	344,058	4,592,293	63,797	2,123	15,061	58,092	5,075,424

All fixed assets are located in the PRC.

## Notes to Financial Statements

31st December 1998

### 9. INTERESTS IN SUBSIDIARIES

	Company	
	1998 Rmb'000	1997 Rmb'000
Unlisted shares, at cost	2,861,875	758,943
Due from subsidiaries	19,643	18,356
	2,881,518	777,299

Particulars of the Company's subsidiaries, all of which are directly held, are as follows:

Name of subsidiaries	Date and place of registration	Registered capital	Percentage of equity attributable to the Company	Principal activities
Zhejiang Yuhang Expressway Company Limited ("Yuhang Co")	Note 1	75,222,997	51%	Construction and management of the Yuhang Section of the Shanghai - Hangzhou Expressway
Zhejiang Jiaxing Expressway Company Limited ("Jiaxing Co")	Note 2	1,859,200,000	84.19%	Construction and management of the Jiaxing Section of the Shanghai- Hangzhou Expressway
Zhejiang Gaotong Stone Development Company Limited ("Gaotong")	Note 3	5,000,000	80%	Manufacturing, designing and selling of stone and quarry materials

**Notes to Financial Statements**

31st December 1998

**9. INTERESTS IN SUBSIDIARIES (continued)**

Name of subsidiaries	Date and place of registration	Registered capital	Percentage attributable to the Company	Principal activities
Zhejiang Shangsan Expressway Company Limited ("Shangsan Co")	Note 4	2,400,000,000	51%	Investing, construction and operating the Shangyu-Sanmen Road
Zhejiang Expressway Advertising Company Limited ("Advertising Co")	Note 5	1,000,000	70%	Advertising

*Note 1.* Yuhang Co was established on 7th June 1994 in the PRC as a joint stock limited company and was subsequently restructured into a limited liability company under its current name on 28th November 1996.

*Note 2.* Jiaxing Co was established on 30th June 1994 in the PRC as a joint stock limited company and was subsequently restructured into a limited liability company under its current name on 29th November 1996.

*Note 3.* Gaotong was established on 3rd November 1997 in the PRC as a limited liability company.

*Note 4.* Shangsan Co was established on 1st January 1998 in the PRC as a limited liability company.

*Note 5.* Advertising Co was established on 1st June 1998 in the PRC as a limited liability company.

The subsidiaries acquired during the year contributed Rmb86,209,000 to Group turnover and Rmb70,644,000 to Group profit after taxation.

## Notes to Financial Statements

31st December 1998

### 10. INTEREST IN AN ASSOCIATED COMPANY

	Group		Company	
	1998 Rmb'000	1997 Rmb'000	1998 Rmb'000	1997 Rmb'000
Unlisted shares, at cost	—	—	208,000	—
Share of net assets other than goodwill	220,718	—	—	—
Provision for diminution in value	—	—	—	—
	220,718	—	208,000	—

The Group's share of post-acquisition accumulated reserve of the associated company at 31st December 1998 was Rmb12,718,000.

Particulars of the associated company are as follows:

Name of associated company	Place of establishment and operation	Percentage of equity attributable to the Group	Principal activities
Zhejiang Expressway	the PRC	50%	Constructing and operating of gas stations and the sale of petroleum products
Petroleum Development Co., Ltd. ("Petroleum Co")			

### 11. CONSTRUCTION IN PROGRESS

Movements in the construction in progress during the year are set out below:

	Group		Company	
	1998 Rmb'000	1997 Rmb'000	1998 Rmb'000	1997 Rmb'000
At 1st January	1,643,231	1,079,270	10,633	—
Additions in the year/period	2,084,143	563,961	96,625	10,633
Transferred to fixed assets - note 8	(2,538,187)	—	—	—
At 31st December	1,189,187	1,643,231	107,258	10,633

**Notes to Financial Statements**

31st December 1998

**12. EXPRESSWAY OPERATING RIGHTS**

	<b>Group</b> Rmb'000	<b>Company</b> Rmb'000
Cost:		
At 1st January and 31st December 1998	261,000	208,000
Amortization:		
At 1st January 1998	4,622	4,622
Provided during the year	6,933	6,933
At 31st December 1998	11,555	11,555
Net book value:		
At 31st December 1998	249,445	196,445
At 31st December 1997	256,378	203,378

**13. LONG TERM INVESTMENTS**

	<b>Group</b>	
	<b>1998</b> Rmb'000	<b>1997</b> Rmb'000
Unlisted investments, at cost	11,149	11,149
Provision for diminution in value	—	—
	11,149	11,149

**14. CURRENT ASSETS**

	<b>Group</b>		<b>Company</b>	
	<b>1998</b> Rmb'000	<b>1997</b> Rmb'000	<b>1998</b> Rmb'000	<b>1997</b> Rmb'000
Cash and bank balances	232,883	840,746	145,380	813,367
Time deposits	1,055,731	2,055,865	1,044,730	2,042,865
Short term investments - note 16	994,274	21,991	737,475	21,991
Accounts receivable - note 17	11,560	9,629	9,257	9,629
Profits tax refundable	36,615	17,172	3,163	9,496
Inventories	1,851	400	1,517	262
Prepayments, deposits and other receivables - note 18	282,519	1,025,733	20,458	730,334
Due from related parties - note 21	7,619	9,119	—	—
	2,623,052	3,980,655	1,961,980	3,627,944

## Notes to Financial Statements

31st December 1998

### 15. CURRENT LIABILITIES

	Group		Company	
	1998 Rmb'000	1997 Rmb'000	1998 Rmb'000	1997 Rmb'000
Bank loans - <i>note 19</i>	410,000	284,679	380,000	279,679
Other loans - <i>note 20</i>	110,191	244,022	94,804	84,702
Accounts payable	380,645	31,030	13,263	1,657
Other payables and accrued liabilities	631,272	166,068	573,575	50,719
Due to related parties - <i>note 21</i>	85,889	25,338	64,273	3,722
Due to holding company - <i>note 22</i>	3,445	19,779	4,747	13,287
Profits tax payable	64,924	42,447	5,800	17,409
Other taxes payable	18,422	17,365	2,923	9,555
Proposed final dividend - <i>note 6</i>	152,009	69,490	152,009	69,490
	1,856,797	900,218	1,291,394	530,220

### 16. SHORT TERM INVESTMENTS

	Group		Company	
	1998 Rmb'000	1997 Rmb'000	1998 Rmb'000	1997 Rmb'000
Investments in government debentures, at cost	994,274	21,991	737,475	21,991
Provision for diminution in value	—	—	—	—
	994,274	21,991	737,475	21,991
Market value of investments	1,027,052	21,991	760,319	21,991

### 17. ACCOUNTS RECEIVABLE

	Group		Company	
	1998 Rmb'000	1997 Rmb'000	1998 Rmb'000	1997 Rmb'000
Accounts receivable	11,560	9,629	9,257	9,629
Provision for doubtful debts	—	—	—	—
Accounts receivable, net	11,560	9,629	9,257	9,629

**Notes to Financial Statements**

31st December 1998

**18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

	<b>Group</b>		<b>Company</b>	
	<b>1998</b> Rmb'000	1997 Rmb'000	<b>1998</b> Rmb'000	1997 Rmb'000
Prepayments for the Shangsan Agreement	—	637,500	—	637,500
Prepayment to contractors in relation to construction of expressways	246,673	370,888	1,121	79,662
Others	35,846	17,345	19,337	13,172
	282,519	1,025,733	20,458	730,334

**19. BANK LOANS**

	<b>Group</b>		<b>Company</b>	
	<b>1998</b> Rmb'000	1997 Rmb'000	<b>1998</b> Rmb'000	1997 Rmb'000
Balances due:				
Within one year	410,000	284,679	380,000	279,679
In the second year	—	105,000	—	105,000
In the third to fifth years, inclusive	—	20,000	—	20,000
	410,000	409,679	380,000	404,679
Portion classified as current liabilities - note 15	(410,000)	(284,679)	(380,000)	(279,679)
Portion classified as long term liabilities	—	125,000	—	125,000

Included in the total bank loans of Rmb410,000,000, Rmb100,000,000 is secured by time deposits of Rmb48,000,000. The remaining balance is unsecured.

The bank loans bear interest at rates ranging from 5.06% to 6.12% per annum.

## Notes to Financial Statements

31st December 1998

### 20. OTHER LOANS

	Group		Company	
	1998 Rmb'000	1997 Rmb'000	1998 Rmb'000	1997 Rmb'000
Balances due:				
Within one year	110,191	244,022	94,804	84,702
In the second year	93,040	158,234	86,041	62,098
In the third to fifth years, inclusive	371,120	307,562	150,197	139,266
Thereafter	1,282,423	1,104,539	563,361	641,271
	1,856,774	1,814,357	894,403	927,337
Portion classified as current liabilities - <i>note 15</i>	(110,191)	(244,022)	(94,804)	(84,702)
Portion classified as long term liabilities	1,746,583	1,570,335	799,599	842,635

Other loans are unsecured and bear interest at rates ranging from 3% to 8.37% per annum.

### 21. BALANCES WITH RELATED PARTIES

The amounts due from and due to related parties are unsecured, interest-free and have no fixed terms of repayment.

### 22. DUE TO HOLDING COMPANY

The amount due to the holding company is unsecured, interest-free and has no fixed terms of repayment.

## Notes to Financial Statements

31st December 1998

### 23. DEFERRED TAXATION

	Group and Company	
	1998 Rmb'000	1997 Rmb'000
Balance at beginning of year/period	3,042	—
Charge for the year/period - <i>note 4</i>	(760)	3,042
Balance at end of year/period	2,282	3,042

The deferred taxation of the Group and the Company are arising from differences in accounting treatments between the generally accepted accounting principles adopted in the PRC and those adopted in preparing these financial statements.

### 24. SHARE CAPITAL

	1998 Number of shares	1997 Number of shares	1998 Rmb'000	1997 Rmb'000
Registered, issued and fully paid:				
Domestic shares of				
Rmb1.00 each	2,909,260,000	2,909,260,000	2,909,260	2,909,260
H Shares of Rmb1.00 each	1,433,854,500	1,433,854,500	1,433,855	1,433,855
	4,343,114,500	4,343,114,500	4,343,115	4,343,115

The domestic shares are not currently listed on any stock exchange.

The H Shares have been listed on The Stock Exchange of Hong Kong Limited since 15th May 1997.

All the domestic shares and H Shares rank pari passu with each other as to dividends and voting rights.

## Notes to Financial Statements

31st December 1998

### 25. RESERVES

	Share premium account Rmb'000	Capital/ (Goodwill) reserve Rmb'000	Statutory surplus reserve Rmb'000	Public welfare fund Rmb'000	Retained profits Rmb'000	Total Rmb'000
<b>Group</b>						
At 1st January 1998	3,645,082	(3,967)	30,169	15,084	170,585	3,856,953
Capital reserve arising on acquisition of a subsidiary	—	9,805	—	—	—	9,805
Goodwill arising on acquisition of additional interests in a subsidiary	—	(323,085)	—	—	—	(323,085)
Net profit for the year	—	—	—	—	385,258	385,258
Transferred from/(to) reserves	—	—	50,437	25,219	(75,656)	—
Dividends - note 6	—	—	—	—	(152,009)	(152,009)
At 31st December 1998	3,645,082	(317,247)	80,606	40,303	328,178	3,776,922
<b>Company</b>						
At 1st January 1998	3,645,082	—	26,722	13,361	165,501	3,850,666
Net profit for the year	—	—	—	—	314,635	314,635
Transferred from/(to) reserves	—	—	36,873	18,436	(55,309)	—
Dividends - note 6	—	—	—	—	(152,009)	(152,009)
At 31st December 1998	3,645,082	—	63,595	31,797	272,818	4,013,292

In accordance with the Company Law of the PRC and the Company's articles of association, the Company is required to allocate 10% of its profit after taxation, as determined in accordance with PRC accounting standards and regulations applicable to the Company, to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the Company. Subject to certain restrictions set out in the Company Law of the PRC and the Company's articles of association, part of the SSR may be converted to increase share capital.

## Notes to Financial Statements

31st December 1998

### 25. RESERVES (continued)

In accordance with the Company Law of the PRC, the Company is required to transfer 5% to 10% of its profit after taxation, as determined in accordance with PRC accounting standards and regulations applicable to the Company, to its statutory public welfare fund (the "PWF"), which is a non-distributable reserve other than in the event of the liquidation of the Company. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain as properties of the Company.

The directors of the Company have proposed to transfer Rmb36,873,000 and Rmb18,436,000 to the SSR and the PWF, respectively. This represents 15% of the Company's profit after taxation of Rmb368,729,000 determined in accordance with the PRC accounting standards. The transfer to the PWF is subject to shareholders' approval at the forthcoming annual general meeting.

According to the relevant regulations in the PRC, the amount of profit available for distribution is the lower of the amount determined under the PRC accounting standards and the amount determined under HKSSAP.

As at 31st December 1998, the Company had reserves of approximately Rmb319,056,000 available for distribution by way of cash or in kind.

As at 31st December 1998, in accordance with the Company Law of the PRC, the amount of approximately Rmb3,645,082,000 standing to the credit of the Company's share premium account was available for distribution by way of capitalization issues.

## Notes to Financial Statements

31st December 1998

### 26. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow from operating activities:

	Period from 1st March 1997 (date of establishment)	to 31st December
	1998 Rmb'000	1997 Rmb'000
Operating profit	505,609	354,399
Depreciation charges	85,524	58,549
Decrease in deferred costs	837	5,963
Amortization of expressway operating rights	6,933	4,622
Interest income	(71,801)	(131,138)
Interest expense, net	94,741	90,272
Loss on disposal of fixed assets	2,681	—
Provision for deficit arising on the disposal of staff quarters	15,300	—
Decrease/(increase) in prepayments, deposits and other receivables	(19,854)	66,655
Increase/(decrease) in amount due to holding company	(16,334)	9,840
Decrease in amount due from related parties, net	1,500	18,422
Increase in other taxes payable	1,057	13,862
Increase/(decrease) in other payables and accrued liabilities	7,871	(36,267)
Increase in inventories	(1,451)	(400)
Increase in accounts receivable	(1,931)	(9,629)
Net cash inflow from operating activities	610,682	445,150

**Notes to Financial Statements**

31st December 1998

**26. NOTES TO THE CASH FLOW STATEMENT (continued)**

(b) Analysis of changes in financing during the year:

	<b>Share capital (including premium)</b> Rmb'000	<b>Loans</b> Rmb'000	<b>Minority interests</b> Rmb'000
At 1st March 1997	4,487,708	2,184,150	545,349
Cash inflows from financing	3,500,489	39,886	135,069
Arising on dilution of minority interests	—	—	(22,545)
Dividends paid to minority interests	—	—	(6,145)
Profit attributable to minority shareholders	—	—	15,986
Balance at 31st December 1997 and 1st January 1998	7,988,197	2,224,036	667,714
Cash inflows from financing	—	42,738	489,935
Arising from dilution of minority interests	—	—	(591,581)
Acquisition of a subsidiary	—	—	621,858
Dividends declared to minority shareholders	—	—	(11,058)
Profit attributable to minority shareholders	—	—	68,914
At 31st December 1998	7,988,197	2,266,774	1,245,782

## Notes to Financial Statements

31st December 1998

### 26. NOTES TO THE CASH FLOW STATEMENT (continued)

#### (c) Acquisition of a subsidiary

	Rmb'000
Net assets acquired:	
Fixed assets - <i>note 8</i>	549,555
Construction in progress	78,826
Cash and bank balances	640,782
Minority interests	(621,858)
	<hr/>
	647,305
Capital reserve on consolidation	(9,805)
Satisfied by:	
Prepayments - <i>note 26(d)</i>	637,500

Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of the subsidiary:

	Rmb'000
Cash consideration	—
Cash and bank balances acquired	640,782
Net inflow of cash and cash equivalents	
in respect of acquisition of a subsidiary	640,782

The subsidiary acquired during the year contributed Rmb165,884,000 to the Group's net operating cash flows, paid Rmb2,141,000 in respect of the net returns on investments and servicing of finance, paid Rmb923,352,000 in respect of the investing activities and contributed Rmb310,380,000 in respect of financing activities, but had no contribution to taxes paid.

## Notes to Financial Statements

31st December 1998

### 26. NOTES TO THE CASH FLOW STATEMENT (continued)

#### (d) Major non-cash transactions:

- i) The Company purchased a 30.748% additional interest in Jiaxing Co from the certain shareholders for a total cash consideration of Rmb914,666,240. According to the payment schedule as defined in the purchase contracts, the Company has paid up Rmb457,333,120 as at 31st December 1998, but is left an amount of Rmb457,333,120 to be paid on or before 31st March 1999. The acquisition was effective on 23rd December 1998; and
- ii) The Company has prepaid Rmb637,500,000 for the acquisition of Shangsan Co as at 31st December 1997, although the Shangsan Co was incorporated on 1st January 1998 (note26 (c)).

### 27. COMMITMENTS

	Group		Company	
	1998 Rmb'000	1997 Rmb'000	1998 Rmb'000	1997 Rmb'000
Contracted, but not provided for				
— Construction of expressways	831,714	586,741	29,540	142,378
— Proposed investments in the Jiaxing section of the Shanghai-Hangzhou Expressway	—	—	—	373,665
— Proposed investments in the Shangyu-Sanmen Road	—	586,500	410,550	586,500
— Others	14,394	—	—	—
Authorized, but not contracted for				
— Construction of expressways	2,609,547	726,554	—	—
— Proposed investment in the Hangzhou-Nanjing Expressway	—	900,000	-	900,000
	3,455,655	2,799,795	440,090	2,002,543

## Notes to Financial Statements

31st December 1998

### 28. DIFFERENCES IN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG ACCOUNTING STANDARDS

	Profit after taxation		Net assets	
	1st March 1997		As at	
	(date of establishment) to 31st December	31st December	1998	1997
	1998 Rmb'000	1997 Rmb'000	1998 Rmb'000	1997 Rmb'000
As reported in statutory accounts	435,247	284,089	8,542,730	8,174,001
HKSSAP adjustments:				
(a) Goodwill	31,605	—	(285,642)	(3,967)
(b) Provision for deficit arising on the disposal of staff quarters	(15,300)	—	(15,300)	—
(c) Interest on H shares subscription monies	(4,310)	17,239	12,929	17,239
(d) Depreciation provided	4,427	3,283	6,317	2,701
(e) Difference in capital surplus during establishment	—	—	11,923	11,923
(f) Others	2,503	(3,297)	(911)	(1,829)
As restated in the financial statements	454,172	301,314	8,272,046	8,200,068

### 29. ULTIMATE HOLDING COMPANY

In the opinion of the Directors, the ultimate holding company of the Company is Zhejiang Provincial High Class Highway Investment Company Limited, a state-owned enterprise established in the PRC.

### 30. RELATED PARTY TRANSACTIONS

The following is a summary of the significant related party transactions carried out in the ordinary course of business between the Company, its subsidiaries and certain government bodies in the year:

Under the reorganization agreement, the Provincial Investment Co gave a number of undertakings to the Company, including a non-competition undertaking, a tax indemnity, and an indemnity against losses incurred, which were not expressly transferred to the Company pursuant to the reorganization and general indemnity provisions against any breach of representation warranty and undertakings contained in the agreement.

## Notes to Financial Statements

31st December 1998

### 30. RELATED PARTY TRANSACTIONS (continued)

The World Bank provided financing for the construction of the Shanghai-Hangzhou Expressway and the Hangzhou-Ningbo Expressway through the Ministry of Finance and the Zhejiang Provincial Expressway Executive Commission (the "Executive Commission"), which was responsible for the control of the construction and the management of the Hangzhou-Ningbo Expressway and the Zhejiang Section of the Shanghai-Hangzhou Expressway. The repayment responsibility for the financing provided for the Hangzhou-Ningbo Expressway, which amounted to US\$105,720,000 as at 31st December 1998, was assumed by the Company. The loan repayment responsibility for the Shanghai-Hangzhou Expressway, which amounted to US\$91,479,133 as at 31st December 1998, was assumed by Yuhang Co and Jiaxing Co.

Pursuant to a supplemental agreement dated 18th April 1997, the Company, the Provincial Investment Co, Jiaxing Co, Yuhang Co, the Executive Commission, the Yuhang Executive Commission and the Jiaxing Executive Commission have agreed that the Company will take over the repayment responsibilities under the reorganization agreement and in respect of the World Bank financing as separately agreed. Jiaxing Co and Yuhang Co are required to take over the repayment obligations with regards to the World Bank financing for their respective sections. Appropriate agreements were entered into between the Company and its subsidiaries and the executive commissions, pursuant to which the Company and its subsidiaries will be charged the same rate of interest as that charged to the executive commissions.

The Zhejiang Provincial Government and a commercial bank provided a number of loans for the construction of the Shanghai-Hangzhou Expressway. These loans were made available through the Yuhang Executive Commission and the Jiaxing Executive Commission to Yuhang Co and Jiaxing Co, respectively. During the year, the repayment of principal and interest expenses in respect of these loans amounted to Rmb318,900,000 and Rmb81,510,000, respectively. There was no further drawdown during the year. At 31st December 1998, Jiaxing Co had no outstanding loan balance and the outstanding loan balance for Yuhang Co amounted to Rmb 85,070,000. All of these loans are unsecured. The terms of the loans to the executive commission are the same as those from the respective executive commissions to the companies.

A contract between the Company and the Executive Commission was reached whereby the Executive Commission will enter into a number of contracts relating to Contract No. 8 on behalf of the Company, for the purpose of upgrading the Operating Systems (as defined in the section "Operation of the Expressway" of the prospectus) of the Hangzhou-Ningbo Expressway. The Company has to take the benefit of these contracts and assume the repayment obligations for any drawdown on the World Bank funding in respect of Contract No. 8. Accordingly, the Company has included construction in progress of Rmb78,730,000, liabilities of Rmb59,552,000 and the repayment obligation on the World Bank funding of US\$2,317,000 (equivalent to Rmb19,178,000) in the financial statements.

### 31. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

### 32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25th February 1999.

## 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, Central  
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*As to PRC Law:*

T & C Law Firm  
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100 Moqianshan Road,  
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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 ltd.  
31st Floor, Edinburgh Tower  
The Landmark, Central  
Hong Kong

### Company Secretary

Mr. Zhang Jingzhong

### Authorised Representatives

Mr. Geng Xiaoping  
Mr. Zhang Jingzhong

### Business Address

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### Place of Business in Hong Kong

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### H Share Registrar and Transfer Office

HKSCC Registrars Limited  
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199 Des Voeux Road, Central  
Hong Kong

### Principal Bankers

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

### Listing Information

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