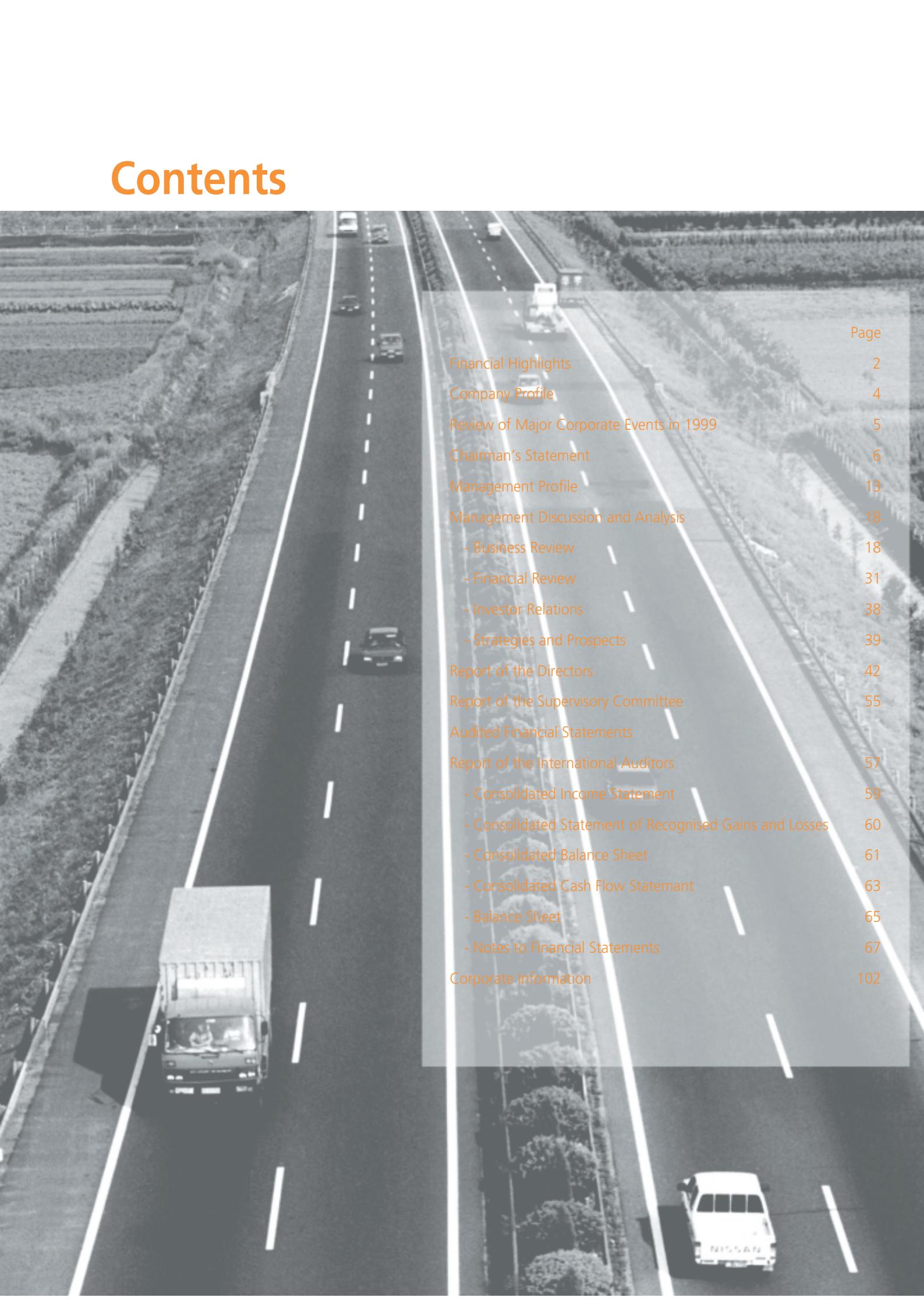


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Financial Highlights

Consolidated

	Year ended 31st December	
	1999	1998
	Rmb'000	Rmb'000
Turnover	1,050,498	655,069
Profit from operating activities	856,915	622,859
Net profit from ordinary activities attributable to shareholders	548,311	404,391
Earnings per share	12.62 cents	9.31 cents
Total liabilities		
(excluding minority interests)	4,042,416	3,609,038
Total assets	13,925,688	12,993,990
Total liabilities-to-assets-ratio	29.03%	27.77%

Due to the adoption of the revised Hong Kong Statements of Standard Accounting Practice ("HKSSAP") during the current year, the presentation of the above figures has been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

In addition, a restatement of the carrying values of the Group's and the Company's short term investments in securities to their fair values (i.e. the market price) as at 31 December, 1998 was made in accordance with the newly adopted HKSSAP 24. The restatement has retrospectively increased the Group's profit from operating activities for the year ended 31 December, 1998 by Rmb19,133,000 (net of deferred tax).

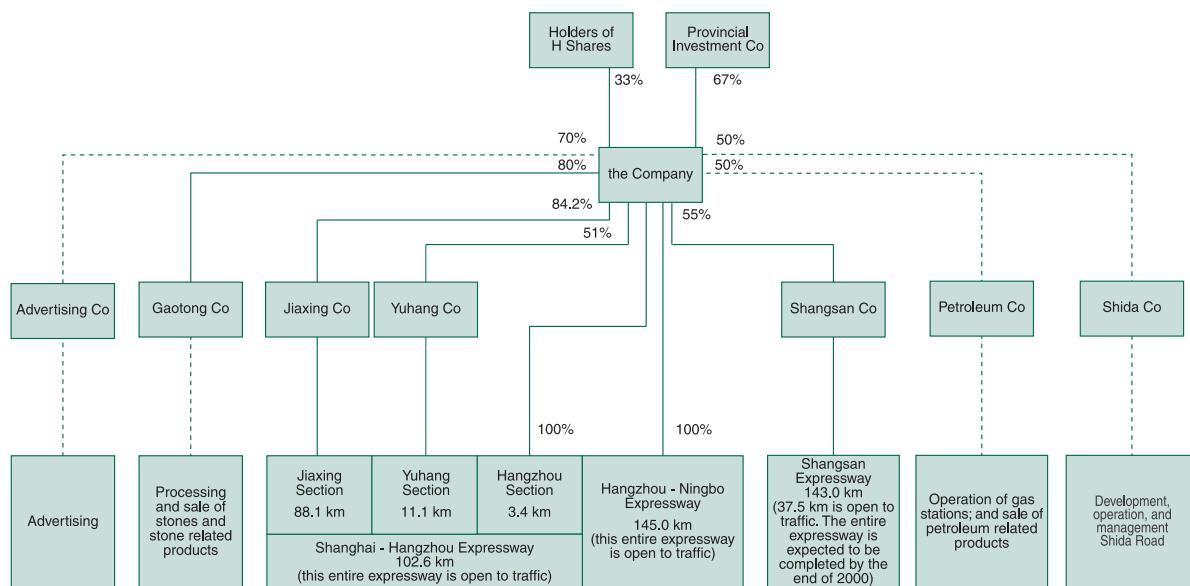
Company Profile

Zhejiang Expressway Co., Ltd. (the "Company") was established on 1 March 1997 as an infrastructure company focusing on toll road operations. The H shares of the Company ("H Shares") were subsequently listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 May 1997.

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

It is the intention of the Company to become a leading PRC infrastructure investment company by 2010 with the mission to "nurture talents, create and share values".

Set out below is the corporate and business structure of the Company, its principal subsidiaries, an associated and a jointly-controlled entity (the "Group").



Notes:

"Advertising Co" means Zhejiang Expressway Advertising Co., Ltd.

"Gaotong Co" means Zhejiang Gaotong Stone Development Co., Ltd.

"Jiaxing Co" means Zhejiang Jiaxing Expressway Co., Ltd.

"Petroleum Co" means Zhejiang Expressway Petroleum Development Co., Ltd.

"Provincial Investment Co" means Zhejiang Provincial High Class Highway Investment Company Limited

"Shangsan Co" means Zhejiang Shangsan Expressway Co., Ltd.

"Shida Co" means Hangzhou Shida Highway Co., Ltd.

"Yuhang Co" means Zhejiang Yuhang Expressway Co., Ltd.

Review of Major Corporate Events in 1999

January 1, 1999

The Company's office was moved to Zhejiang World Trade Centre to create a better working environment for the benefit of its staff.

February 3, 1999

The Chairman attended several presentations in London of Chinese overseas-listed companies organised by the China Securities Regulatory Commission.

February 25, 1999

The 1998 annual results were announced.

May 6, 1999

The 1998 annual general meeting was convened.

June 28, 1999

The Company and Xinchang County Transport Development Company ("Xinchang Transport") entered into an agreement for the acquisition of the latter's 4% ownership interest in Shangsan Co, thereby increasing the Company's interest in Shangsan Co from 51% to 55%.

July 1, 1999

Toll rates of the Shanghai-Hangzhou-Ningbo Expressway were increased pursuant to the approval granted by Zhejiang Provincial Government.

August 5, 1999

The 1999 interim results were announced.

August 20, 1999

The Company and Hangzhou Highway Development Co., Ltd. entered into an agreement to establish a jointly-controlled entity, Shida Co, for the development and operation of the Shida Road project.

September 20, 1999

An extraordinary general meeting was convened to approve payment of the interim dividend.

November 22, 1999

The 1998 annual report was awarded an Honourable Mention for the 1999 Best Annual Reports Competition organised by the Hong Kong Management Association.

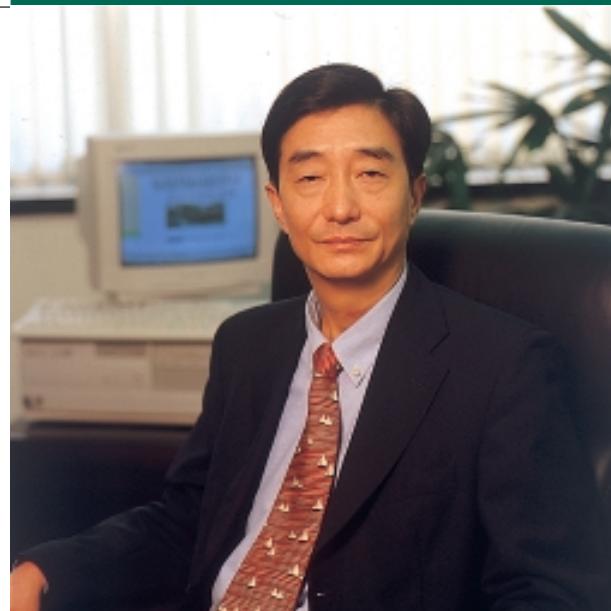
Chairman's Statement

It has only been three years since the incorporation of Zhejiang Expressway Co., Ltd. We have been committed to maximising the value of shareholders' investment during these three years, and have achieved satisfactory results with profit attributable to shareholders growing at an annual compounded rate of 22.8 per cent. In 1998, the Company became an index constituent stock of the "Hang Seng Index 100". In a survey conducted by Asiamoney magazine, the Company was regarded by fund managers as one of the top 10 overall best managed companies in China in 1999. We believe we have well achieved the targets which we set ourselves three years ago. However, we shall strive for further improvement.

Our Vision and Mission

Since the second half of 1999, the Board of Directors, management, and external management consultants of the Company have reviewed and discussed about the Company's future strategies and management. After a thorough study of the toll road industry, its operating environment and the Company's resources, the Company has arrived at the vision of becoming a leading infrastructure investment company in China by 2010. The Company's mission is to nurture talents, create and share values.

We believe the toll road industry still has great potential for growth in the coming decade. With the gradual maturing of business practices and the reduction of obstacles to cross-regional operations, inter-regional toll road operators are expected to emerge. Hence, the patterns and level of the returns to the toll road industry would increasingly hinge upon the competitiveness of individual operators.



Demand for infrastructure boosted by the rapid growth of the PRC economy and the State incentive policy has also resulted in the continued rapid growth of the infrastructure industry. The crucial resources and core competence relating to the toll road industry may be extended to other infrastructure businesses. By expanding from expressway operations into the infrastructure business, the Company will be better positioned to seize more opportunities for growth.

The Company believes that the recruitment, training, and retention of high calibre individuals is critical in an increasingly competitive business environment. With this in mind, the Company's mission is to nurture talents, create and share values with its shareholders, customers, partners, staff and the community with the ultimate objective to maximise the value of shareholders' investment.

Furthermore, business ethics and corporate social responsibility are increasingly becoming a concern to the general public. Not only are business interests given due consideration, more attention is also given to the business impact on our environment.

Operating Environment

Given the dwindling impact of the Asian financial turmoil on the regional economies and the economic recovery in these countries, 1999 witnessed a marked improvement in the overall operating environment.

- Macro Environment

In 1999, the PRC economy continued to grow rapidly and provinces neighbouring Zhejiang Province were economically active. In particular, Zhejiang Province had one of the highest GDP growth rates in the PRC with an outstanding economic performance. The satisfactory economic growth in neighboring provinces also provided momentum to the Company's toll road operations.

In 1999, China saw a moderate increase in its foreign reserves as well as stability in the Renminbi exchange rate. In the second half of the year, there was a rebound in PRC foreign trade and export, resulting in a healthy state of PRC international balance of payments. In addition, Zhejiang Province, being ranked well above the national average in terms of growth of import and export trade, helped to bring about a surge in the road traffic volume.

Chairman's Statement (Cont'd)

Pursuant to the approval granted by Zhejiang Provincial Government, we increased for the first time the distance-based toll rate for Class 1 vehicles using the Shanghai-Hangzhou-Ningbo Expressway on 1 July, 1999. The overall increase is slightly higher than the compounded annual growth rate of the PRC Retail Price Index (4.2 per cent) for the preceding three calendar years (1996-1998).

- **Highway Law Amendment**

At the end of October 1999, the PRC Highway Law was amended, pursuant to which, the State will levy taxes instead of imposing road construction and maintenance fees in order to raise capital for road construction and maintenance. We believe that the amended Highway Law, generally being beneficial to the toll road business, will not only facilitate the standardisation and legalisation of the toll road operating rights, but will also be conducive to the investment environment. Furthermore, the Directors expect that the imminent abolition of such charges and other vehicle-related charges will stimulate private automobile consumption, which will, in turn, boost the traffic volume of the Group's toll roads.

- **WTO Membership**

The PRC and the US signed a bilateral agreement on 15 November, 1999 whereby the PRC is likely to join the World Trade Organisation ("WTO") in 2000. In the long term, the PRC's WTO membership will be conducive to the PRC economy as PRC enterprises will have to improve their competitiveness. This will in turn increase the overall economic efficiency and give impetus to the continued economic growth, all of which should stimulate further growth in traffic volumes of the expressways.



We believe that the eventual PRC entry to the WTO will promote foreign trade. With the Shanghai-Hangzhou-Ningbo Expressway being strategically located, the Group will accordingly benefit from such development. Furthermore, we expect that the gradual tariff reduction in respect of automobiles will increase the consumption of cars, which will further boost highway traffic flows.

The PRC's WTO membership will prompt drastic changes in the operating environment as enterprises will have to place more emphasis on efficiency and cost effectiveness, reduce inventory costs and increase productivity. As a result, there will be a higher demand for transportation, in particular, the expressways offering faster and safer services and other infrastructures. This will accelerate the development of the infrastructure industry and give rise to the emergence of a modern logistics industry in the PRC, thereby offering greater challenges and opportunities to us.

- Technological Developments

The rapid change in modern technological development and in particular, the proliferation of the modern information technology applications have revolutionized the livelihood of business, society, and the individual. We are now paying more attention to information and knowledge, with the belief that an era of a knowledge economy will come about in the 21st century. Faced with such challenge, we will have to enhance the application of modern technology and to increase the amount of technological investment in our services, with a view to improve management and upgrade the quality of services provided.

The 21st Century

2000 is a crucial year. According to most astronomers, 2000 marks the end of the 20th century, and to ordinary people, 2000 heralds the beginning of a new millennium. Others believe that 2000 is a transitional year from the 20th century to the 21st century. We prefer the latter concept, as we will spend the year preparing for all the challenges ahead in the millennium.

Chairman's Statement (Cont'd)

- **Strategies**

Maximisation of the shareholders' value is our main concern and our ultimate goal. We believe that increasing shareholders' return and the continued growth are the two key elements that drives up shareholders' value. To increase shareholders' return and to realize continued growth, our strategies are as follows:

- **Emphasise Core Business**

Highway operation will remain our core business and focus, with emphasis on developing certain selected areas along the supply chain of the toll road business. We will capitalise on our competitive strengths and establish a reputation of being "a toll road specialist" by increasing our customer research, improving our business processes, setting up a quality assurance system and establishing a client-oriented toll road operating system.

- **Develop Road-Related Business**

We will maintain our presence in the toll road business in Zhejiang Province and continue to develop the road-related business. By leveraging on our established core competence, we will seek appropriate investment opportunities that meet our requirements of return and growth in the PRC infrastructure industry.

- **Identify and Acquire New Projects**

We will strengthen our industry research, project development and financial engineering. At the same time, we will actively look for existing and proposed infrastructure projects that meet our requirements for high project growth.

- **Broaden Scope of Cooperation and Strategic Alliances**

We will continue to broaden the scope of cooperation and partnership with local governments, financial and academic institutions and seek strategic alliances in different sectors of the infrastructure industry.

- **Strategic Implementation**

We understand that the formulation of good strategies is only one aspect of realizing our long-term goal. In addition, we also realise that good corporate governance, an efficient organisational system, effective human resourcing system, and a vibrant corporate culture are also necessary for the effective implementation of our strategies.

- **Strengthen Corporate Governance**

The respective number of independent directors and independent supervisors in the newly-formed Board of Directors and Supervisory Committee have been increased at the end of February 2000. We have also established an Audit Committee under the Board of Directors to review and supervise the Company's financial reporting process and internal controls. An incentive and control mechanism for senior management will also be established so as to bring their interests in line with the long-term interests of our shareholders. We believe that corporate governance within our Company will be strengthened as a result.

- **Improve Organisational System**

We will need to progressively adjust our organisational structure to accomodate a gradual shift from a toll road operation-based organisational structure to a project development-based one in order to fulfill our vision.

- **Develop Human Resources**

In line with our corporate strategies, we will need to further reform our existing human resourcing system, and enhance the remuneration package and performance appraisal systems to attract and encourage future and existing staff.

Chairman's Statement (Cont'd)

- **Build Corporate Culture**

We believe that a vibrant corporate culture is instrumental for the successful implementation of our strategies. Accordingly, we will give top priority to the cultivation of our corporate culture, the emphasis and promotion of our corporate core values through earnest practice, thorough communication, and performance appraisals.

Secondary Listing in London

We plan to seek a secondary listing of our H Shares on the London Stock Exchange ("LSE") by way of introduction in order to broaden the Company's shareholder base. However, the Company will not issue new shares for this purpose. Subject to obtaining the approval from the China Securities Regulatory Commission and the LSE, the dealing in the H Shares on LSE is expected to commence in May 2000.

Geng Xiaoping

Chairman and General Manager

Hangzhou, Zhejiang Province, the PRC

1 March, 2000

Management Profile

Executive Directors

Mr. GENG Xiaoping, age 51, is the Chairman and General Manager of the Company responsible for the overall management of the Company's businesses. Mr. Geng graduated from the East China College of Political Science and Law and obtained a bachelor's degree in law in 1984. From 1979 to 1991, he held various positions at the People's Procuratorate of Zhejiang Province including Secretary, Division Chief and Deputy Procurator. In 1991, he was appointed the Deputy Director of Zhejiang Provincial Expressway Executive Commission, responsible for the business operation and administration of the expressway system in Zhejiang. Mr. Geng became the Chairman and General Manager of the Company since March 1997.

Mr. FANG Yunti, age 50, senior engineer, is the Deputy General Manager and Chief Financial Officer of the Company responsible for the planning, finance, project development, investment and administration of the Company. Mr. Fang graduated from Qing Hua University and majored in automotive engineering in 1976. From 1983 to 1988, he was the Deputy General Manager of Zhejiang Province Automobile Transport Company. From 1988 to 1990, he was the Chief Engineer at the Provincial Road Transport Company. In 1991, he was appointed as the Head of the Operating Administrative and Technical Equipment Divisions of the Zhejiang Provincial Expressway Executive Commission where his responsibilities included supervision of the operation management and equipment purchasing of the Shanghai-Hangzhou-Ningbo Expressway. Mr. Fang was a Director and Deputy General Manager of the Company from March 1997 to February 2000 responsible for the overall operations of the Shanghai-Hangzhou-Ningbo Expressway including responsibility for technical equipment used by the Company in its operations.

Mr. ZHANG Jingzhong, age 36, senior lawyer, is the Secretary to the Board of Directors of the Company. Mr. Zhang graduated from Hangzhou University in July 1984 obtaining of a bachelor's degree in law. In 1984, he joined the Zhejiang Provincial Political Science and Law Policy Research Unit. Since 1988 and until 1994, he was the Associate Director of Hangzhou Municipal Foreign Economic Law Firm. In 1992, he obtained the qualifications required by the regulatory authorities in China in order to practice in law involving securities. In January 1994, Mr. Zhang became Senior Partner at the T&C Law Firm in Hangzhou. Mr. Zhang became a Director and Secretary to the Board of Directors of the Company since April 1997.

Management Profile (Cont'd)

Mr. XUAN Daoguang, age 55, senior engineer, is the Deputy General Manager of the Company responsible for the operation, maintenance and equipment of the Company. Mr. Xuan graduated from the Tong Ji University in 1967 with a degree in engineering, and majored in the construction and design of bridges and tunnels. Mr. Xuan has 31 years of experience in engineering maintenance with the Road Administration Division including as the Section Head and, later, as the Head of the Road Administrative Division of Jinhua City. He has worked for the Zhejiang Provincial Expressway Executive Commission and was responsible for the administration of engineering work within Zhejiang Province, including repair and maintenance on the completed sections of the Shanghai-Hangzhou-Ningbo Expressway. Mr. Xuan was a Director and Manager of the Company from March 1997 to February 2000 responsible for repair and maintenance work.

Non-executive Directors

Mr. XIA Linzhang, age 56, senior engineer, is a member of the Audit Committee of the Company. Mr. Xia graduated from Jiao Zou Mining College. He was the head of Suichang Coal Mine, Standing Deputy Head and Head of Suichang County, Zhejiang Province. Mr. Xia was appointed the Chief of the Planning and Finance Division of the Zhejiang Provincial Expressway Executive Commission. He is currently the Deputy General Manager and Manager of Zhejiang Provincial High Class Highway Investment Co., Ltd. responsible for finance. Mr. Xia was the Chairman of Supervisory Committee of the Company from March 1997 to February 2000.

Ms. ZHANG Chunming, age 35, senior lawyer, is a member of the Audit Committee of the Company. Ms. Zhang 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 practiced as a lawyer with the Zhejiang Provincial Economics Law Firm in Hangzhou where her practice included financial, securities and property matters. Ms Zhang has also obtained the qualifications required by the regulatory authorities in China in order to practice in law involving securities and, in 1994, she spent six months undergoing training in Hong Kong. Since 1994 she has been a Partner and Director of Zhejiang Shield Law Office. Ms. Zhang was a Director and Manager of the Company from March 1997 to February 2000 responsible for legal and securities related issues.

Independent non-executive directors

Dr. HU Hung Lick, Henry G.B.S. O.B.E. Ph.D. J.P., age 80, is a member of the Audit Committee of the Company. Dr. Hu has been practicing as a barrister for over 45 years and is currently the President of Shue Yan College in Hong Kong, 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 of Juvenile Delinquency. Dr. Hu became an Independent Non-executive Director of the Company since March 1997.

Mr. TUNG Chee Chen, age 57, Chairman of Orient Overseas (International) Limited, is the Chairman of the Audit Committee of the Company. 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 currently a registered Professional Engineer in the State of California. Mr. Tung became an Independent Non-executive Director of the Company since March 1997.

Mr. ZHANG Junsheng, age 63, professor, is a member of the Audit Committee of the Company. Mr. Zhang graduated from Zhejiang University in 1958, and was a lecturer, an associate professor, an advising professor at the Zhejiang University, and a professor concurrently at, amongst other universities, the Zhongshan University. In 1980, he became the Deputy General Secretary of Zhejiang University. In 1983, Mr. Zhang served as Deputy General Secretary of the Hangzhou City Government. In 1985, he began to work for the Xinhua News Agency, Hong Kong Branch, and became its Deputy Director in 1997. Mr. Zhang took up the post of General Secretary of Zhejiang University in September 1998. In addition, Mr. Zhang is currently a Special Advisor to the Zhejiang Provincial Government, an Advisor to the Sichuan Provincial Government, and a Senior Advisor to the Shenzhen City Government.

Supervisors

Mr. MA Kehua, age 47, senior economist, is the Chairman and non-executive member of the Supervisory Committee of the Company. Mr. Ma graduated from Shanghai Railway Institute in 1977, after which he worked as an engineer at Shanghai Railway Bureau No. 1 Construction Company and the Plumbing and Electricity Section of Shanghai Railway Bureau, Hangzhou Branch. Mr. Ma was in charge of the Planning and Finance Division at the Zhejiang Local Railway Company, and became Deputy Division Chief and Division Chief of Zhejiang Jinwen Railway

Management Profile (Cont'd)

Executive Commission responsible for material supply since 1993. Mr. Ma took up the post of Deputy General Secretary of Zhejiang Construction and Investment Company since March 1999, and is currently the Deputy General Secretary of Zhejiang Provincial High Class Highway Investment Co., Ltd.

Mr. NI Ciyun, age 49, senior economist, is a member of the Supervisory Committee of the Company representing the staff and workers. Mr. Ni graduated from Tianjin University in 1976 majoring in mechanical manufacturing. He was a Deputy Manager and Manager at Zhejiang Jiaxing Shipping Company since 1981, Deputy Director of Jiaxing Communications Bureau in 1989, Director of Zhapu Port Executive Commission in 1990, Director of Jiaxing Zhapu Port Authority in 1992, and Deputy Director of Shanghai-Hangzhou-Ningbo Expressway Jiaxing Construction Executive Commission in 1993. Mr. Ni is currently the Chief Administrator of the Company's Jiaxing Section.

Mr. LU Fan, age 44, senior economist with a Masters Degree in Economy, is an independent non-executive member of the Supervisory Committee of the Company. Mr. Lu was an assistant researcher at the World Economy Research Institute of Zhejiang Social Science Academy, and became the Vice-Director of Zhejiang Asia-Pacific Research Institute in 1991. Mr. Lu joined Zhejiang Securities Co., Ltd. in 1994. He was the General Manager of Investment Banking Division and is currently the Vice President of Zhejiang Securities Co., Ltd.

Mr SUN Xiaoxia, age 37, professor, is an independent non-executive member of the Supervisory Committee of the Company. Mr. Sun graduated from Wuhan University, School of Law with a Masters Degree in law. He had worked as Assistant Lecturer, Lecturer, Assistant Professor and Tutor for graduate students at Hangzhou University, School of Law. Mr. Sun is currently Deputy Dean of School of Law and Dean of Department of Law, Zhejiang University. In addition, Mr. Sun is a lawyer with Zheda Law Firm, a standing member of China Jurisprudence Research Society, a member of the International Society for Philosophy of Law and Social Philosophy (IVR), and a member of the IVR's China Branch.

Mr. ZHENG Qihua, age 37, senior accountant, is an independent non-executive member of the Supervisory Committee of the Company. He is currently the Deputy General Manager of the Zhejiang Pan-China Certified Public Accountants, and guest professor at Zhejiang Finance and Economics Institute. Mr. Zheng was amongst the first batch of Chinese registered accountants to obtain qualifications required for practicing accountancy involving securities in 1992. He has working and training experiences in Hong Kong and Singapore, and spent approximately six months working with the Listing Division of China Securities Regulatory Commission during 1997 and 1998.

Management Discussion and Analysis

Business Review

Business Environment Analysis

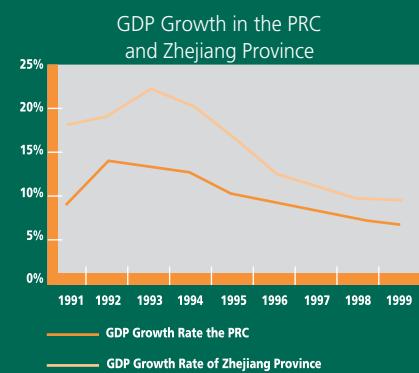
The PRC economy achieved a growth rate of 7.1 per cent in 1999 with a GDP of Rmb8,205.4 billion.

Zhejiang Province has been one of the fastest growing Chinese provinces in terms of its economic activities. In 1999, Zhejiang Province witnessed a double-digit GDP growth rate of 10 per cent with its GDP reaching Rmb535.0 billion.

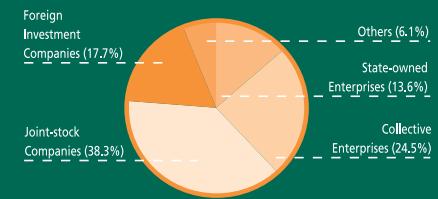
Economic Structure of Zhejiang Province

The continued rapid economic growth of Zhejiang Province was directly attributable to various reforms. Resources were allocated to industries and enterprises with competitive edge. In 1999, the gross industrial output of State-owned enterprises, collective enterprises, joint-stock companies and foreign investment companies increased by 2.7 per cent., 11.1 per cent., 23.0 per cent. and 24.3 per cent. to Rmb70.5 billion, Rmb127.2 billion, Rmb148.7 billion and Rmb91.81 billion respectively. The gross industrial output of joint-stock companies, which has become the dominant economic structure in Zhejiang Province, exceeded that of collective enterprises for the first time.

1999 also witnessed a robust growth of individual private enterprises in the Zhejiang Province. Commanding an increasingly larger market share, the individual private enterprises realised a retail sales of consumer goods of Rmb108.09 billion, representing a year-on-year increase of 11.9 per cent. and accounting for 57.7 per cent. of the provincial total retail sales of consumer goods, as compared with 56.1 per cent. in the previous year. The individual private enterprises operated on an increasingly high standard of quality and stressed the importance of innovation of systems,



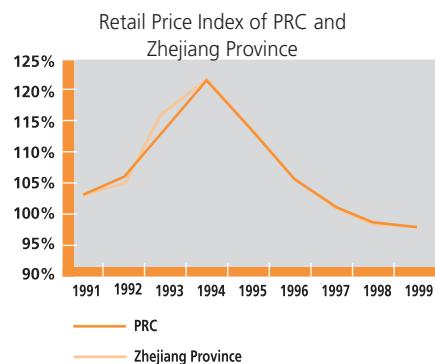
Composition of the total industrial output of Zhejiang Province in 1999, non state-owned industrial enterprises with sales above Rmb5 million and all State-owned industrial enterprises



technology, and management. Many were involved in the high technology and service industry, and focused on tapping the foreign markets.

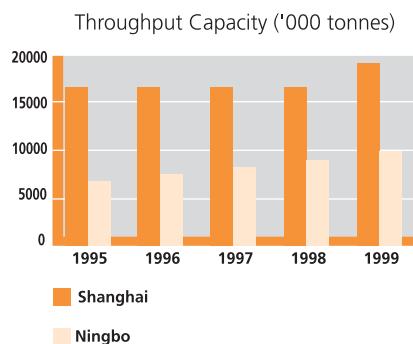
Retail Price Index of Commodities

PRC price levels have been falling from its record high in 1994. Despite this, a compounded annual growth rate of the PRC retail price index of commodities of approximately 4.2 per cent was achieved between 1996 and 1998. In 1999, the price level of goods other than service items, housing and medical insurance fell, compared to that in 1998. In addition, both the national retail price index of goods and consumer price index decreased 2.9 per cent. and 1.3 per cent. respectively, while both the Zhejiang provincial retail price index of goods and consumer price index decreased 2.3 per cent. and 1.2 per cent. respectively.



Ports

The Shanghai-Hangzhou-Ningbo Expressway links Shanghai and Ningbo, which are the two largest ports in the PRC. In 1999, the throughput capacities of Shanghai and Ningbo were 186 million tonnes and 97 million tonnes respectively, representing a year-on-year increase of 13.50 per cent. and 10.95 per cent respectively.



Infrastructure Investment and Road Traffic in Zhejiang Province

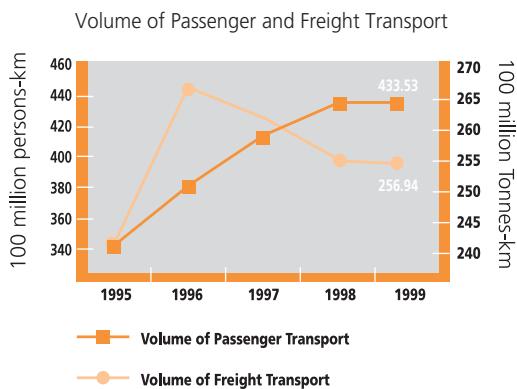
In 1999, Zhejiang Province continued to make substantial investment in infrastructure amounting to Rmb66.84 billion, representing a year-on-year increase of 9.0 per cent. and accounting for 64.5 per cent. of total infrastructure and renovation investment respectively.

The construction of transportation infrastructure in Zhejiang Province progressed smoothly. At the end of 1999, total mileage of the province reached 40,782 km, representing a year-on-year increase of approximately 4.8 per cent., while mileage of the provincial expressways reached 392 km, representing a year-on-year increase of approximately 14 per cent. We expect the mileage for provincial expressways to reach 1,372 km by the end of 2002, according to the provincial planning of "4-hour road traffic cycle".

Management Discussion and Analysis (Cont'd)

Passenger and Freight Transport

Passenger and Freight volume recorded in 1999 were 43.35 billion tonnes-km and 25.69 billion tonnes-km respectively, which were very similar to that in 1998.



Core Business - Toll Road Business Analysis

The Group achieved satisfactory results and rapid growth in 1999. The opening to traffic of the Jiaxing Section of the Shanghai-Hangzhou Expressway at the end of 1998 marked the full operation of the Group's core asset, the Shanghai-Hangzhou-Ningbo Expressway, connecting Shanghai, Hangzhou and Ningbo. Under the "networking effect", the turnover from toll revenue surged 65.17 per cent. to Rmb1,087,672,000 from Rmb658,505,000 last year.

The table below sets out the 1999 toll revenue in respect of the Hangzhou-Ningbo Expressway, the Hangzhou, Yuhang, and Jiaxing Sections of the Shanghai-Hangzhou Expressway, the Yuhang East Connecting Road, and the Shangsan Expressway:

		Shanghai-Hangzhou Expressway		Yuhang East		
	Hangzhou-Ningbo Expressway	Hangzhou Section	Yuhang Section	Jiaxing Section	Connecting Road	Shangsan Expressway
Toll revenue (Rmb'000)	556,136	25,874	81,674	311,203	12,904	99,881
Year on year growth	+23.66%	+30.89%	+43.35%	—	-68.5%	+9.75
% of total toll revenue	51.13%	2.38%	7.51%	28.61%	1.19%	9.18%

Shanghai-Hangzhou-Ningbo Expressway

The Shanghai-Hangzhou-Ningbo Expressway is a dual two-lane expressway lying along the southern tip of the Yangtze River Delta. It has a total length of 247.6km and became fully operational at the end of December 1998. The Group has acquired the land use right over two strips of land adjacent to the Shanghai-Hangzhou-Ningbo Expressway, and may widen its existing four lanes to a total of six lanes in due course.



The following table sets out the basic information on various sections of the Shanghai-Hangzhou-Ningbo Expressway:

	Mileage (km)	Date of Commencing Operation	Number of Toll Stations	Shareholding of the Company
Shanghai-Hangzhou- Ningbo Expressway	247.6	April 1992/ December 1998	19	
Hangzhou-Ningbo Expressway	145.0	April 1992/ December 1996	12	100%
Shanghai-Hangzhou Expressway	102.6	December 1995/ December 1998	7	
Hangzhou Section	3.4	December 1995	0	100%
Yuhang Section	11.1	December 1995/ December 1998	1	51%
Jiaxing Section	88.1	December 1998	6	84.2%

Management Discussion and Analysis (Cont'd)

Toll Rates

The current toll rates in respect of the Shanghai-Hangzhou-Ningbo Expressway are as follows:

Vehicle Class	Classification Standard	Entrance fee (Rmb/Vehicle)	Mileage Fee (Rmb/Vehicle/km)
1	Passenger vehicles with up to 20 seats Trucks with tonnage of 2 tons or below	5	0.45
2	Passenger vehicles with seats above 20 and below 40 (inclusive) Trucks with tonnage of above 2 tons and below 5 tons (inclusive)	10	0.80
3	Buses with more than 40 seats (including sleeping buses with more than 32 seats) Trucks with tonnage above 5 tons and below 10 tons (inclusive)	15	1.20
4	Trucks with tonnage above 10 tons and below 20 tons (inclusive)	20	1.60
5	Trucks with tonnage above 20 tons below 50 tons (inclusive)	25	2.00

Pursuant to the approval granted by Zhejiang Provincial Government, the Group increased the distance-based toll rate for Class 1 vehicles using the Shanghai-Hangzhou-Ningbo Expressway from Rmb0.40/km to Rmb0.45/km since 1 July, 1999.

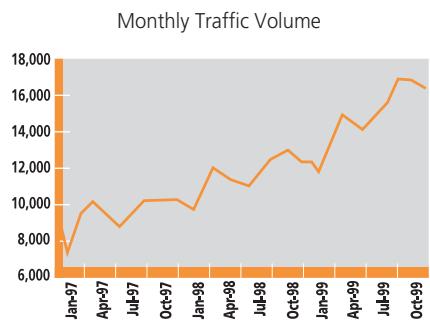
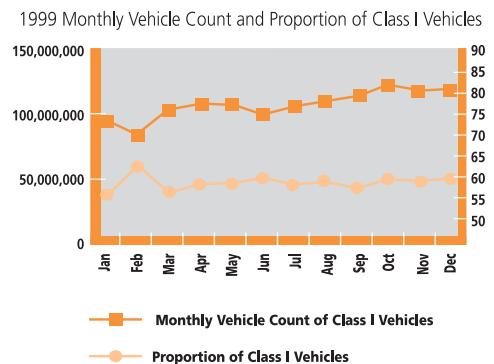
The percentage of Class 1 vehicles has remained steady but the vehicle count is on an upward trend, following the toll rate adjustment.

Traffic Volume

With the full operation of the Shanghai-Hangzhou-Ningbo Expressway, the average traffic volume surged rapidly by 28.5 per cent. to 14,814 vehicles in 1999 from the previous year. (1998/1997 : 22.9 per cent.)

The Shanghai-Hangzhou-Ningbo Expressway has the following three main features in terms of its traffic volume:

- the ramp-up effect: the Shanghai-Hangzhou-Ningbo Expressway is experiencing a rapid growth phase;
- the networking effect: the prompt surge in the traffic volume resulting from linkage of disconnected roads. At the end of 1998, the increase was more significant upon the full operation of the Shanghai-Hangzhou-Ningbo Expressway ; and
- the seasonal effect: the traffic volume varies with different seasons with a characteristic dip following the Chinese New Year period, and a steady climb after summer. The movement closely resembles the pattern of business activities which in turn is influenced by holidays and weather patterns on a yearly basis.



Management Discussion and Analysis (Cont'd)

A further detailed analysis for the traffic volume of the Shanghai-Hangzhou-Ningbo Expressway by sections is as follows:

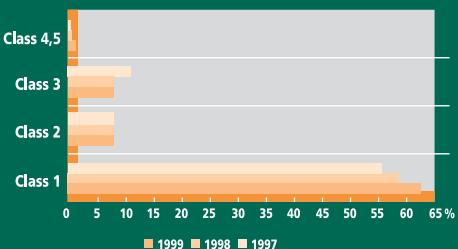
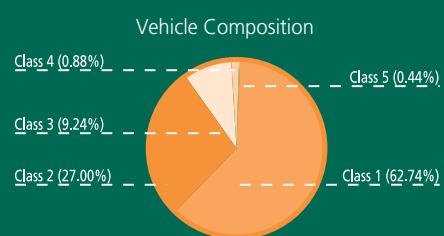
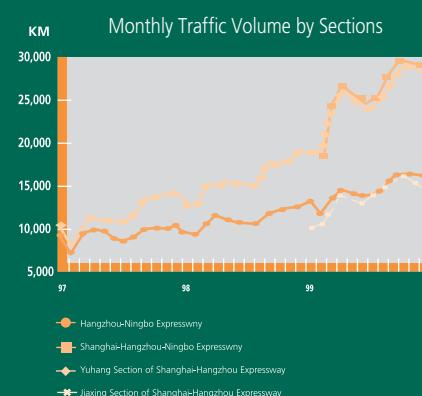
In 1999, the average daily traffic volume of the Hangzhou-Ningbo Expressway and the Hangzhou and Yuhang Sections of the Shanghai-Hangzhou-Ningbo Expressway were 14,483, 25,433, and 24,931 vehicles respectively, representing year-on-year increases of 29.73 per cent., 58.7 per cent. and 55.1 per cent. respectively. The average daily traffic volume of the Jiaxing Section in 1999 stood at 13,661 vehicles.

At present, the higher average daily traffic volume of the Hangzhou and Yuhang Sections of the Shanghai-Hangzhou-Ningbo Expressway can be attributed to its earlier opening to traffic and proximity to Hangzhou. The opening of the north exit in Hangzhou in February, 1999 resulted in a minor difference of the traffic volume between the Yuhang and Hangzhou Sections. The average daily traffic volume of the Jiaxing Section indicated an uptrend. We believe that this section will outperform the Hangzhou-Ningbo Expressway in terms of traffic volume.

Vehicle Composition

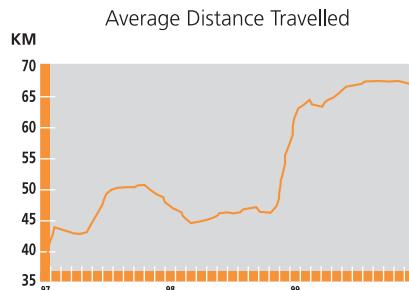
In respect of the vehicle composition on the Shanghai-Hangzhou-Ningbo Expressway, Class 1 vehicles made up a larger share of approximately 62.7 per cent. in 1999 as compared to the previous year.

In 1999, Class 2 and 3 vehicles commanded an aggregate share of approximately 36.2 per cent., which is less than that in the previous year, while Class 4 and 5 vehicles have an aggregate share of approximately 1 per cent., increasing annually on the whole.



Average Distance Travelled

In 1999, the average distance travelled by vehicles using the Shanghai-Hangzhou-Ningbo Expressway increased 39.9 per cent. year-on-year to approximately 65.7 km. We believe that the increase is mainly due to an increase in vehicles travelling longer distances upon the operation of the Jiaxing Section.

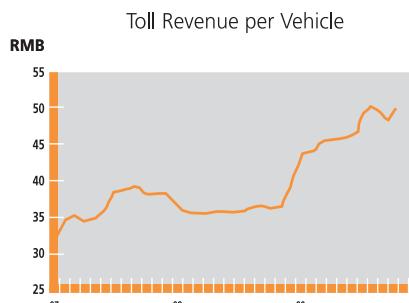
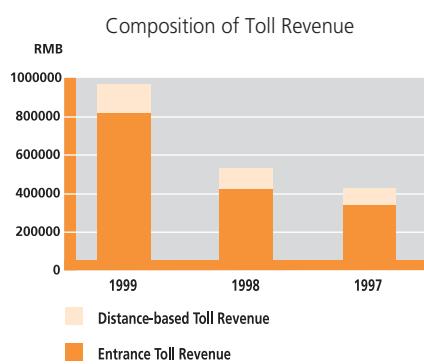


Toll Revenue

In 1999, following the operation of both the Jiaxing Section with a length of 88.1 km and the final 1.3 km portion of the Yuhang Section, the toll revenue generated by the whole Shanghai-Hangzhou-Ningbo Expressway reached Rmb974.9 million, representing a sharp increase of approximately 85.2 per cent. over 1998 (1998/1997: 22.7 per cent.).

In 1999, the entrance and distance-based toll revenues accounted for 15.6 per cent. and 84.4 per cent. of the total toll revenue respectively. The percentage of the distance-based toll revenue had increased as compared to the previous year.

In 1999, the average toll revenue per vehicle using Shanghai-Hangzhou-Ningbo Expressway was approximately Rmb47.8, representing a surge of 30.6 per cent. over 1998. We believe this was mainly due to the following increases in: (1) the average distance travelled by vehicles as a result of the full operation of Shanghai-Hangzhou-Ningbo Expressway; and (2) the distance-based toll revenue following the toll increase in July 1999.



Management Discussion and Analysis (Cont'd)

Reasons for Growth

The impact of the Asian financial turmoil on the region is less significant as regional economies recover. Zhejiang Province economy is more vibrant, and has, in particular, one of the fastest growing economies within the PRC in terms of GDP and has become one of the most affluent provinces in the PRC. Trading and tourism within Zhejiang Province and those areas in its vicinity have also boosted the demand for traffic.

The Shanghai-Hangzhou-Ningbo Expressway is strategically located, connecting both Shanghai and Ningbo, which have respectively the largest port and the second largest port within the PRC. Cities situated along the Shanghai-Hangzhou-Ningbo Expressway are economically active.

Furthermore, we believe that the substantial growth in terms of traffic volume, toll revenue, and other indicators in respect of the Shanghai-Hangzhou-Ningbo Expressway was mainly attributable to the following:

- The full operation of the Shanghai-Hangzhou-Ningbo Expressway at the end of 1998 has given rise to a tremendous networking effect, thus increasing traffic volume and boosting toll revenue.
- The toll rate adjustment for the Shanghai-Hangzhou-Ningbo Expressway has resulted in an increase in toll revenue given the stable vehicular composition and the steadily growing traffic volume.
- The repair and maintenance services provided by the Group for certain road surfaces of the Shanghai-Hangzhou-Ningbo Expressway has further enhanced its appearance and quality.

Yuhang East Connecting Road

The Yuhang East Connecting Road is owned by Yuhang Co and became operational in December 1995. With the approval from Zhejiang Provincial Government, it commenced toll collection at the same time, offsetting its construction and maintenance costs. Prior to the opening of the Jiaxing Section of the Shanghai-Hangzhou-Ningbo Expressway, Yuhang East Connecting Road served as the primary carriageway between the Yuhang Section of the Shanghai-Hangzhou-Ningbo Expressway and National Road 320. Following the opening of the Jiaxing Section at the end of 1998, it merely served as a connecting road between the Shanghai-Hangzhou-Ningbo Expressway and National Road 320. In 1999, the toll revenue attributable to the Yuhang East Connecting Road was approximately Rmb12,904,000. The Yuhang East Connecting Road ceased toll collection since 1 January, 2000.

Shangsan Expressway

The entire Shangsan Expressway covers a total distance of approximately 143 km. Phase 1 (comprising four sections with a total length of approximately 37.5 km) of Shangsan Expressway has already been opened to traffic. In 1999, there were approximately 7,274 vehicles passing in both directions daily, representing an increase of 10.0 per cent. over 1998, while the toll revenue was approximately Rmb99,881,000, representing a year-on-year increase of approximately 9.75 per cent.

Construction of Phase 2 of the Shangsan Expressway is progressing smoothly and is scheduled for completion by the end of 2000. Upon completion, it will be a dual two-lane expressway with a total of ten interchanges, nine toll stations, and three service areas.

	Shangyu Section	Chengzhou Section	Xinchang Section	Tiantai Section
Length:	about 33km	about 32km	about 33km	about 44km
Width of the road:	24.5km	24.5km	21.5km	24.5km
The number of Interchanges:	4	1	2	3
Number of toll stations:	3	1	2	3
Number of service areas:	—	1	1	1
Designed speed:	100km/hr	100km/hr	60km/hr	100km/hr

Given the current construction work of Phase 2, two existing toll stations at Shangyu and Xinchang respectively ceased toll collection since 1 January, 2000. The Directors believe that subsequent work may result in a significant reduction of toll revenue of Shangsan Co in 2000. However, such result is expected to be short-term. Subject to the approval by Zhejiang Provincial Government, new toll stations and toll rates will be in place when the entire Shangsan Expressway becomes fully operational.

Management Discussion and Analysis (Cont'd)

Xinchang Acquisition

On 28 June, 1999, the Company acquired from Xinchang Transport a 4 per cent. interest in Shangsan Co at a cash consideration of Rmb114,080,000. Following the acquisition, the Company's shareholding of Shangsan Co increased from 51 per cent. to 55 per cent., while Xinchang Transport's shareholding of Shangsan Co decreased from 6 per cent. to 2 per cent. The acquisition constituted a connected transaction of the Company but pursuant to paragraph 14.24 of the Rules Governing the Listing of Securities issued on the Stock Exchange of Hong Kong Limited, did not require shareholders' approval. Details of the acquisition can be found in the press announcement made by the Company on 29 June, 1999.

Shida Road

On 20 August, 1999, the Company and Hangzhou Highway Development Co., Ltd. entered into an agreement ("Shida JV Contract") to establish a jointly-controlled entity, Shida Co, for the development and operation of Shida Road project with respect to the Shanghai-Hangzhou Expressway. Pursuant to the Shida JV Contract, the Company acquired a 50 per cent. interest in Shida Co for a cash consideration of Rmb65,000,000.

Shida Road covers a total length of approximately 9.45 km and is a connecting road of the Shanghai-Hangzhou Expressway which provides access to urban Hangzhou. An approximate 2 km section linking the Shanghai-Hangzhou Expressway will form part of Hangzhou Ring Road. The construction cost of Shida Road is approximately Rmb367,000,000. Shida Road is an improved connecting road of the Shanghai-Hangzhou-Ningbo Expressway network and also serves as the second access to urban Hangzhou, attracting more vehicles onto the Shanghai-Hangzhou-Ningbo Expressway to access urban Hangzhou.

Operating Management System

The highway operating management system (including traffic control, monitoring, communications, lighting and toll collection systems) has been or will be installed along all the expressways of the Group. At the end of 1999, the new toll collection system of the Hangzhou-Ningbo Expressway was installed and tested while the control, monitoring, communications, and lighting systems had already been in operation.

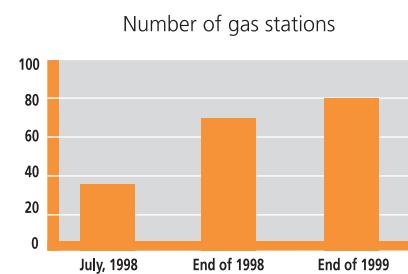
On 1 February, 1999, the Company established a Control and Toll Collection Centre to coordinate the installation and operation of the operating management system in all the Group's existing roads.

To enhance toll collection efficiency and reduce cash transactions, the Company introduced the use of "prepaid IC cards" along the Shanghai-Hangzhou-Ningbo Expressway in October 1999.

Other Business

Petroleum Operations

The Company established a joint venture, Petroleum Co, in Zhejiang Province in July 1998, with a 50% shareholding interest. The joint venture is mainly engaged in investments in, construction and operation of, gas stations and to the sale of petroleum products along high-grade roads and other roads in Zhejiang Province.



In 1999, Petroleum Co achieved a steady growth. The number of gas stations operated by Petroleum Co increased from 33 since its establishment in 1998 to 77 at the end of 1999. In 1999, the Group's interests in Petroleum Co's profit after tax was approximately Rmb21,380,000.

Advertising Business

Advertising Co was established in June 1998 and is 70% owned by the Company. As an advertising media developer, it is mainly engaged in the development of outdoor advertising media along expressways. The Company has authorised Advertising Co to receive orders, produce and disseminate advertisements on acquired lands along the Shanghai-Hangzhou-Ningbo Expressway since July 1998.

In 1999, Advertising Co realised an operating income of Rmb5,859,000 and profit after tax of approximately Rmb2,990,000.

Management Discussion and Analysis (Cont'd)

In December 1999, pursuant to a document jointly issued by the Zhejiang Provincial Department of Communication, the Zhejiang Provincial Department of Public Security, and the Zhejiang Provincial Administration of Industry and Commerce, an exclusive right of unified installation and dissemination of outdoor advertisements along the Shanghai-Hangzhou-Ningbo Expressway was granted to the Company. The Directors believe that by leveraging on the expansion and management of advertising media and clients, the business of Advertising Co will expand in 2000.

Financial Review

Analysis of Financial Results

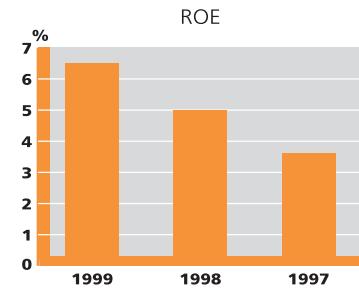
In 1999, the Group reported profit before tax of approximately Rmb706,552,000, representing a year-on-year increase of 29.1% (before exceptional items), and net profit from ordinary activities attributable to shareholders of approximately Rmb548,311,000, representing an increase of 35.6%.

Overall Financial Strategies

The management has been committed to maximising the value of shareholders' investment. The formulation and implementation of the financial strategies is also the extension of this concept. Our objective is investment in strategic projects at the minimum cost by leveraging on the Group's available financial resources. Hence, the Group can generate long-term stable return on shareholders' equity.

Return on Shareholders' Equity

The return on shareholders' equity ("ROE") is the percentage of net profit from ordinary activities attributable to shareholders for the current financial year to the shareholders' equity as at the balance sheet date. This financial indicator generally reflects the operating performance of the Group and is also one of the most important financial indicators that measure the growth of the shareholders' value.



	1999 Rmb'000	1998 Rmb'000	1997 Rmb'000
Net profit from ordinary activities attributable to shareholders	548,311	404,391	296,332
Shareholders' equity	8,433,840	8,139,170	8,200,068
Return on shareholders' equity	6.5%	5.0%	3.6%

The ROEs for the past three years were relatively low but have been growing steadily. We believe that this was due to the early stages of operation of our toll roads. However, with the strong growth of traffic volumes, we expect our ROEs will further improve in the near future.

Management Discussion and Analysis (Cont'd)

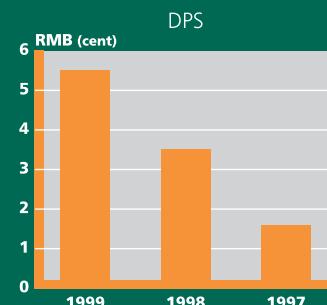
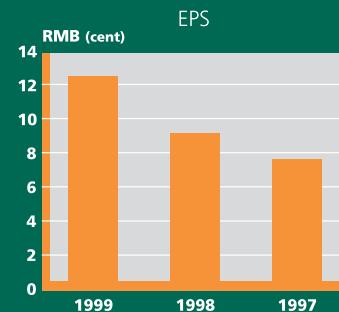
Earnings per Share

Earnings per share ("EPS") means the ratio of net profit from ordinary activities attributable to shareholders to the weighted average of the outstanding shares. The management of the Company believes that this financial indicator reflects specifically the growth potential of the Company, and it is also an important reference indicator to determine the dividend policy.

	1999	1998	1997
Outstanding shares (thousand shares)	4,343,115	4,343,115	4,343,115
Weighted average (thousand shares)	4,343,115	4,343,115	3,812,785
Net profit from ordinary activities attributable to shareholders (Rmb'000)	548,311	404,391	296,332
Basic earnings per share (Rmb Cent)	12.62	9.31	7.77

Dividend Policy

The dividend policy indicates the management's recognition of the interests of shareholders. The management believes that the formulation of an appropriate dividend policy is instrumental in the future long-term development of the Company.



	1999	1998	1997
Dividend per share ("DPS") (Rmb Cent)	5.5	3.5	1.6
Payout ratio (%)	43.6	37.6	20.6

Usually the dividend payout ratio of the Company is approximately 40-50% and its shareholders receive dividend in cash or in other forms. The Company will normally maintain a relatively stable dividend policy. While ensuring continued growth, the Company will make corresponding adjustments in accordance with profits, cashflows and opportunities of project investment.

Generally, payment of approximately one-third of dividends is declared in the interim period with the balance to be declared at the end of the financial year.

Review of Operating Results

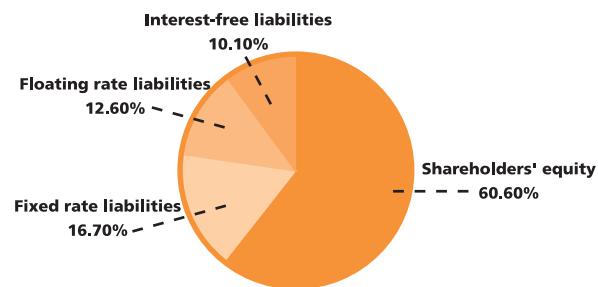
Toll Revenue Contribution

	1999 Rmb'000	1999 YoY Growth	1998 Rmb'000	1998 YoY Growth	1997 Rmb'000
Toll revenue	1,087,672	65.17%	658,505	41.58%	465,098
Contribution to profit from operating activities	838,887	36.42%	614,915	37.47%	447,318

Management Discussion and Analysis (Cont'd)

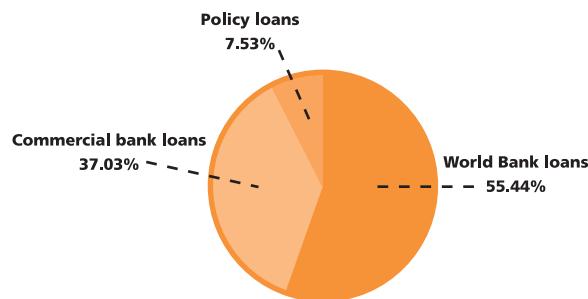
Financing

Capital Structure



	1999			1998		
	Gross	Average		Gross	Average	
	Amount	Percentage	Rate	Amount	Percentage	Rate
	Rmb'000	(%)	(%)	Rmb'000	(%)	(%)
Shareholders' equity	8,433,840	60.56	—	8,139,170	62.64	—
Fixed rate liabilities	1,408,069	10.11	5.17	615,043	4.73	6
Floating rate liabilities	1,751,828	12.58	7.55	1,651,731	12.71	7.3
Interest-free liabilities	2,331,828	16.75	—	2,588,046	19.92	—
Total	13,925,688	100%	—	12,993,990	100%	—
Liabilities/Equity Ratio	65.12%	—	—	59.65%	—	—

Liabilities Portfolio



Ended 31 December 1999

Total Drawn Amount Outstanding

	Gross Amount Rmb'000	Fixed Rate Rmb'000	Floating Rate Rmb'000	Percentage (%)
World Bank Loans (US\$)	1,751,828	—	1,751,828	55.44
Commercial bank Loans	1,170,000	1,170,000	—	37.03
Policy Loans	238,069	238,069	—	7.53
Total	3,159,897	1,408,069	1,751,828	100.00

Interest Expenses Cover

Interest expenses cover is the percentage of profit after tax but before interest to interest expenses.

	1999	1998	1997
Profit after taxation but before interest (Rmb'000)	781,726	553,835	407,385
Interest expenses (Rmb'000)	172,922	94,741	110,350
Interest expenses cover	22.12%	17.11%	27.09%

Management Discussion and Analysis (Cont'd)

Analysis of Capital Expenditure

The details of the capital commitments of the Group and the Company are set out in note 32 to the audited financial statements on page 98.

As at 31 December, 1999, among the Group's total capital commitments of Rmb3,252 million to be payable in the next one to four years for the construction and expansion of the expressways, approximately Rmb2,505 million will be used for the construction of Shangsan Expressway to be payable in the next one to two years, and approximately Rmb747 million will be used for the expansion of the existing expressways to be payable in the next one to four years.

Cash Management

The Company derives its long-term and stable cash inflow from toll revenue operations. Reasonable cash management will further optimise the use of resources of the Company when meeting financing needs of various projects.

Cashflow Analysis of the Group

	1999 Rmb'000	1998 Rmb'000
Net cash inflow from operating activities	1,047,828	610,682
Net cash outflow from returns on investments and servicing of finance	(312,992)	(194,452)
Taxes paid	(43,978)	(61,881)
Net cash outflow from investing activities	(1,135,201)	(1,449,596)
Net cash outflow before financing activities	(444,343)	(1,095,247)
Net cash inflow from financing activities	1,110,892	532,673
Increase/(decrease) in cash/cash equivalents	666,549	(562,574)

Management Discussion and Analysis (Cont'd)

Risk Management

Foreign Exchange Exposure

Given the Group's substantial US dollar loans, there were also approximately USD114.7 million deposits set up in US dollars to reduce its foreign exchange exposure.

	1999	1998	1997
Current & time deposits (US\$'000)	114,719	55,541	7,073
Liabilities (US\$'000)	222,482	209,513	177,079
US dollar Assets/(liabilities), (US\$'000)	(107,763)	(153,972)	(170,006)
Deposit/Liabilities Ratio	51.56%	26.51%	3.99%

The Directors of the Company believe that taking into account the scale of the Group's existing US dollar liabilities of the World Bank loans and the interest expenses thereon, the solvency in the near to medium term will not affect its operations to a material extent.

Investor Relations

We have high regard for our relationship with our investors and communication with our shareholders, and encourage face-to-face contact so as to provide a better understanding of our business and scale of operations, future prospects and quality of the management.

For more information on the Company, please contact:

Investor's Hotline :+86 571 798 7700

Fax : +86 571 795 0329

Email : ir@zjec.com.cn

Strategies and Prospects

Toll Road Operations

In 2000, the Company will work to ensure the timely completion of the Shangsan Expressway, and to proceed with the widening of the section of the Hangzhou-Ningbo Expressway between Hongken at Xiaoshan and Guzhu at Shangyu from four lanes to six lanes to increase capacity for future traffic growth. Meanwhile, by capitalising on the Company's extensive experience gained from toll road operations, the Company will strive to establish and refine the client-based operational systems with a view to tapping fully the growth potential of the existing road business.

In addition, the Company aims to:

- enhance travelling conditions and the ability to react in a timely manner to emergencies, enhance the prompt dissemination of travel information and increase the flexibility of the monitoring and toll collection systems in order to improve and develop the operating management capacity of the Company;
- step up the management and analysis of customers, conduct targeted promotion and marketing, and widen our customer base; and
- increase the operating efficiency of the Company and customer satisfaction through improvement of the business process and establishment of quality assurance systems.

Management Discussion and Analysis (Cont'd)

Related Business Development

As part of the Company's new strategy, we will continue to develop the toll road-related business in 2000. With respect to the advertising business, Advertising Co will fully utilise the available resources to broaden its customer base. With respect to petroleum operation, Petroleum Co will concentrate on the cost effectiveness of the retailing business at gas stations so as to secure a reasonable return on the Company's investment.

Organisation Innovation

The Company has the long-term task of carrying out continual organisational innovation and development. In 2000, we will make adjustments to our organisational operations with an aim to improve the various organisational structures and to establish the teamwork mechanism. In this regard, we will do the following:

- bring about the continued improvement in project development capacity through enhancement of the research and development function and structure, and the formation of core competence in respect of toll road and other infrastructural sectors; and
- maintain our leading position in the industry by enhancing our financial management ability.

Employee Relations and Development

Human resources are an important asset to our Company. Hence, we will enhance our human resources system and establish a market-based salary package, performance appraisal system and performance-linked training system to attract and encourage future and existing staff. Our target is to set up a successful and effective staff recruitment, training, incentive and retention scheme to support the implementation of our strategies.

Corporate Culture

As a company with a relatively short history, we are still in the process of developing our corporate culture.

Our mission, vision and strategies are formed as a result of discussions, taking into consideration our operating environment and the Company itself. This common recognition of our future has driven us to promote the following core values:

- honesty and harmony;
- continual innovation and improvement;
- priority to customers;
- teamwork;
- pursuit of excellence; and
- effectiveness and efficiency.

We will place emphasis on such core values through performance appraisals and gradual adjustments to our operational systems. Meanwhile, we will continue to strengthen our core values amongst our staff through exemplary practices and day-to-day communications. Our future prospects hinge on our ability to keep abreast of trends and to adapt flexibly to the challenges ahead.

We will report to you all about our news, whether good or bad.

Report of the Directors

The directors of the Company (the "Directors") present their report and the audited financial statements of the Company and the Group for the year ended 31 December, 1999.

Principal activities

The principal activities of the Group comprise investment in 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. There were no changes in nature of the Group's principal activities during the year.

Segmented information

During the year, the entire turnover and contribution to profit from operating activities of the Group was derived from Zhejiang Province, in the PRC. Accordingly, a further analysis of the turnover and contribution to profit from operating activities by geographical area is not presented. However, an analysis of the Group's turnover and contribution to profit from operating activities by principal activity for the year ended 31 December, 1999 is as follows:

	Turnover Rmb'000	Contribution to profit from operating activities Rmb'000
<hr/>		
By activity:		
Toll income	1,028,977	838,887
Advertising income	5,489	4,533
Road maintenance income	6,595	5,446
Others	9,437	8,049
	1,050,498	856,915

Results and dividends

The Group's profit for the year ended 31 December, 1999 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 59, 61, 62, 65 and 66.

An interim dividend of Rmb0.015 per share (approximately HK\$0.014) was paid on 10 October, 1999. The Directors recommend the payment of a final dividend of Rmb0.04 per share (approximately HK\$0.037) in respect of the year, to shareholders on the register of members on 20 April, 2000. This recommendation has been incorporated into the financial statements.

Report of the Directors (Cont'd)

Summary financial information

The following is a summary of the consolidated results, and of the assets and liabilities of the Group prepared on the basis set out in the notes below:

Results	Year ended 31 December				
	1999 Rmb'000	1998 Rmb'000	1997 Rmb'000	1996 Rmb'000	1995 Rmb'000
Turnover	1,050,498	655,069	463,692	273,843	59,105
Operating costs	(298,417)	(220,537)	(146,046)	(33,867)	(3,994)
Gross profit	752,081	434,532	317,646	239,976	55,111
Other revenue	167,528	234,573	197,034	40,928	30,693
Administrative expenses	(60,320)	(45,611)	(31,126)	(57,716)	(14,540)
Other operating expenses	(2,374)	(635)	(978)	(243)	(58)
Profit from operating activities	856,915	622,859	482,576	222,945	71,206
Finance costs	(172,922)	(94,741)	(110,350)	(62,981)	(29,241)
Share of profit of an associate	22,559	18,982	—	—	—
Profit before tax	706,552	547,100	372,226	159,964	41,965
Tax	(71,810)	(73,795)	(58,639)	(60,296)	(16,378)
Profit before minority interests	634,742	473,305	313,587	99,668	25,587
Minority interests	(86,431)	(68,914)	(17,255)	186	—
Net profit from ordinary activities attributable to shareholders	548,311	404,391	296,332	99,854	25,587
Earnings per share	12.62 cents	9.31 cents	7.77cents	3.43cents	0.9cents
Assets and liabilities					
Total assets	13,925,688	12,993,990	11,466,377	6,222,082	3,512,648
Total liabilities and minority interests	5,491,848	4,854,820	3,266,309	3,448,751	1,834,709
Net assets	8,433,840	8,139,170	8,200,068	2,773,331	1,677,939

Summary financial information *(continued)*

Notes:

1. The consolidated results of the Group for the year ended 31 December, 1998 and the pro forma consolidated results of the Group for the three years ended 31 December, 1997 have been extracted from the Company's 1998 annual report dated 25 February, 1999, while those of the year ended 31 December, 1999 were prepared based on the consolidated income statement as set out on page 59 of the financial statements.
2. The 1999 earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year ended 31 December, 1999 of Rmb548,311,000 (1998: Rmb404,391,000) and the 4,343,114,500 shares (1998: 4,343,114,500 shares) in issue during the year.

Major customers and suppliers

The five largest customers and suppliers contributed 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 of the Group carried out in the year, which the Stock Exchange of Hong Kong Limited ("Stock Exchange") has granted a waiver (for compliance with Chapter 14 of the Rules Governing the Listing of Securities issued on The Stock Exchange of Hong Kong Limited ("Listing Rules") pursuant to its letter of 14 May, 1997), and the scope of these transactions have been further modified in accordance with paragraph 19A.21 of the Listing Rules (the "Connected Transactions"). For details, please refer to note 35 to the financial statements.

Another connected transaction of the Group carried out in 1999 was the Xinchang Acquisition, further details of which are set out under the heading "Xinchang Acquisition" in the section of "Management Discussion and Analysis" on page 28 of this report.

Report of the Directors (Cont'd)

The Company's Board of Directors has reviewed the Connected Transactions and confirmed that, during the period from 1 January, 1999 to 31 December, 1999, such transactions were:

- (i) carried out in accordance with the terms of the agreements relating to such transactions entered into by the Company or its subsidiaries (as relevant);
- (ii) entered into in the usual and ordinary course of business of the Company or its subsidiaries (as relevant); and
- (iii) entered into on normal commercial terms and are 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 14 May, 1997), have also reviewed the above transactions and have confirmed that the Board of Directors of the Company has given its approval of these transactions and that 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 period from 1 January, 1999 to 31 December, 1999.

Fixed assets

Details of movements in the fixed assets of the Company and the Group are set out in note 13 to the financial statements.

Capital commitments

Details of the capital commitments of the Company and the Group as at 31 December, 1999 are set out in note 32 to the financial statements.

Subsidiaries

Particulars of the Company's subsidiaries are set out in note 14 to the financial statements.

Jointly-controlled entity and an associate

Particulars of the Company's and the Group's interests in a jointly-controlled entity and an associate are set out in notes 15 and 16 to the financial statements, respectively.

Interest capitalised

During the year, interest capitalised as part of the costs of construction in progress amounted to approximately Rmb14,843,000 (1998: Rmb78,964,000).

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements.

Distributable reserves

As at 31 December, 1999, the Company's reserves available for distribution by way of cash or in kind, calculated in accordance with relevant rules and regulations, amounted to Rmb311,335,000. In addition, 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 capitalisation issues.

Charitable contributions

During the year, the Group made charitable contributions totaling Rmb450,000.

Report of the Directors (Cont'd)

Substantial shareholders

As at 31 December, 1999, the following shareholders 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%
HKSCC Nominees Limited	1,393,711,299 ("H" shares)	32.09%

Purchase, sale or redemption of the listed securities of the Company

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 note 24 to the financial statements.

Trust deposits

As at 31 December, 1999, 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 financial institutions in Hong Kong. The Company has not encountered any difficulty in the withdrawal of funds.

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 31 December, 1999 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, in November 1998, the Company, with the approval from its shareholders, applied this portion of the IPO proceeds to pay for the consideration for the acquisition of an approximately 30.748 per cent. interest in the capital of Jiaxing Co (the "Acquisition"). The total consideration in relation to the Acquisition was approximately Rmb914.7 million, and was funded entirely by the IPO proceeds. Half of the Acquisition consideration was paid up in December, 1998 and the balance was paid in March 1999;
- Approximately Rmb1,048.05 million was used as capital contribution to Shansan Co. The balance of the capital contribution in the sum of approximately Rmb175.95 million will be paid in the year 2000;
- Approximately Rmb38 million was used as capital contribution to Petroleum Co;

As at 31st December, 1999, the Company used approximately Rmb3,207.42 million, or approximately 91% of its IPO proceeds. The balance of approximately Rmb316.58 million was deposited in commercial banks in the PRC and invested in listed liquidable state bonds.

Report of the Directors (Cont'd)

Directors

The Directors during the year were:

Executive Directors

Mr. Geng Xiaoping

Mr. Ying Shudeng

Mr. Fang Yunti

Mr. Xu Yikuang

Mr. Zhang Jingzhong

Ms. Zhang Chunming

Mr. Xuan Daoguang

Independent Non-executive Directors

Dr. Hu Hung Lick, Henry

Mr. Tung Chee Chen

All of the Directors were appointed on 1 March 1997. In accordance with the Company's articles of association, all the Directors will retire and, being eligible, may offer themselves for re-election at the forthcoming extraordinary general meeting dated 28 February, 2000.

Directors and senior management biographies

Biographical details of the new board of Directors and senior management of the Group are set out under the Management Profile section of this report.

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 1 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 direct or indirect, in any contract of significance to which the Company, or any of its subsidiaries, 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

As at 31 December, 1999, 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 corporations (as defined in the SDI Ordinance) as recorded in the register maintained by the Company pursuant to 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, jointly-controlled entity, associate or 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.

Report of the Directors (Cont'd)

Directors' and supervisors' remuneration

	Rmb'000
Fees	—
Basic salaries, housing, other allowances and benefits in kind	1,286
Pension scheme contributions	—
Bonuses paid and payable	—
	1,286

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

The amount disclosed above included remuneration of HK\$120,000 paid to each of the independent non-executive Directors (1998: HK\$100,000). 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 Rmb762,000 (1998: 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 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 the contributions that it has previously 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.

Year 2000 compliance

The Company understands that, with respect to the computer systems that record years by the last two digits as opposed to four digits, at the turn of the century, the two digits 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.

The Group's definition of being Year 2000 compliant is ensuring that every supporting computer information system has continued to function properly and thereby, all the critical business processes have continued to operate after 31 December, 1999.

The Group has passed the turn of the century and no significant problems have been noted so far. The Directors believe that the Group's systems are Year 2000 compliant and that its operations will not be significantly affected by the Year 2000 issue.

Accommodation benefits for employees

According to the relevant rules and regulations in the PRC, the Group and its employees are required to contribute to a housing fund (based on a certain percentage of the salaries of the employees). There are no further payment obligations beyond the said contribution to the housing fund. In 1998, in addition to the contribution made to the housing fund as required, the Company purchased apartments for the sum of Rmb19 million and made a provision of Rmb15.3 million in that year for the estimated loss on their disposal. The Company planned to sell the apartments to certain eligible employees of the Company at a discount of approximately 80 per cent., and the sale of the apartments will be completed in 2000. Save as disclosed above, the Company did not own, acquire or dispose any staff quarters during the year.

Report of the Directors (Cont'd)

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 except the Board of Directors expect that the Audit Committee will be set up on 28 February, 2000.

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

22 February, 2000

Report of the Supervisory Committee

Dear Shareholders,

In compliance with the Company Law of the People's Republic of China, the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, the three-member Supervisory Committee conscientiously discharged its statutory supervisory duties for the purpose of safeguarding the lawful interests of the shareholders and the Company. In respect of our primary tasks covered in 1999, we attended Board meetings, advised on important issues such as project development, investment decisions, and dividend policy, participated in major functions of the Company, and understood and monitored through other means the behaviour of the Directors, General Manager as well as other officers in operational management and routine affairs. In addition, we carried out an earnest review of the financial position of the Company by verifying on schedule the financial report and profit distribution scheme proposed by the Board for submission to the shareholders' general meeting.

The Directors, General Manager, and other officers of the Company were engaged in lawful operations and prescribed activities, while earnestly implementing various resolutions passed at shareholders' general meetings. With cost-effective measures in place, promising results were achieved in 1999. There were, accordingly, an increase in profits attributable to shareholders and a good corporate image was established.

Having examined the financial report and profit distribution scheme for 1999 prepared by the Board for submission to the shareholders' general meeting, we considered that the financial report presented an accurate reflection of the operating results and asset position of the Company for 1999 pursuant to the relevant laws, regulations, and the Articles of Association of the Company. We also agreed to the said profit distribution scheme.

We also reviewed the report of the Directors submitted to the shareholders' general meeting on this occasion and considered it a presentation of the actual situation regarding the Company. In the course of the business, the Directors, General Manager and other officers of the Company observed their fiduciary duties and worked with diligence during the exercise of their rights or the discharge of their tasks. We did not find any abuse of powers or infringement of the interests of both shareholders and employees.

Report of the Supervisory Committee (Cont'd)

The various accomplishments of the Company were to our satisfaction, and we have full confidence in the prospects of development of the Company.

By the order of Supervisory Committee

Xia Linzhang

Chairman of the Supervisory Committee

22 February, 2000

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 59 to 101 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.

Report of the International Auditors (Cont'd)

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 31 December, 1999 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

22 February, 2000

Consolidated Income Statement

Year ended 31 December 1999

	Notes	1999 Rmb'000	1998 Rmb'000
TURNOVER	4	1,050,498	655,069
Operating costs		(298,417)	(220,537)
Gross profit		752,081	434,532
Other revenue	4	167,528	234,573
Administrative expenses		(60,320)	(45,611)
Other operating expenses		(2,374)	(635)
PROFIT FROM OPERATING ACTIVITIES	5	856,915	622,859
Finance costs	6	(172,922)	(94,741)
Share of profit of an associate		22,559	18,982
PROFIT BEFORE TAX		706,552	547,100
Tax	7	(71,810)	(73,795)
PROFIT BEFORE MINORITY INTERESTS		634,742	473,305
Minority interests		(86,431)	(68,914)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	8	548,311	404,391
Dividends	11	(238,872)	(152,009)
RETAINED PROFIT FOR THE YEAR		309,439	252,382
EARNINGS PER SHARE	12	12.62cents	9.31cents

The notes on pages 67 to 101 form an integral part of the financial statements.

Consolidated Statement of Recognised Gains and Losses

Year ended 31 December 1999

	Notes	1999 Rmb'000	1998 Rmb'000
Effect of changes in accounting policy	31	19,133	—
Net gain not recognised in the income statement		19,133	—
Net profit for the year attributable to shareholders		548,311	404,391
Total recognised gains and losses		567,444	404,391
Capital reserve arising on the acquisition of a subsidiary	29	—	9,805
Goodwill eliminated directly against reserves	29	(14,769)	(323,085)
		552,675	91,111

The notes on pages 67 to 101 form an integral part of the financial statements.

Consolidated Balance Sheet

31 December 1999

	Notes	1999 Rmb'000	1998 Rmb'000
NON-CURRENT ASSETS			
Fixed assets	13	10,621,870	9,862,189
Interest in a jointly-controlled entity	15	65,000	—
Interest in an associate	16	231,439	220,718
Expressway operating rights	17	240,745	249,445
Long term investments	18	38,650	11,149
Deferred costs		—	4,928
		11,197,704	10,348,429
CURRENT ASSETS			
Short term investments	18	1,083,394	1,016,783
Inventories		1,049	1,851
Trade receivables	19	4,749	11,560
Other receivables	20	270,119	326,753
Time deposits		417,952	1,004,442
Cash and cash equivalents	21	950,721	284,172
		2,727,984	2,645,561
CURRENT LIABILITIES			
Trade payables		226,895	380,645
Profits tax payable		116,245	64,924
Other taxes payable		11,735	18,422
Other payables and accruals	22	524,298	872,615
Interest-bearing bank and other borrowings	23	1,106,425	520,191
		1,985,598	1,856,797
NET CURRENT ASSETS		742,386	788,764

The notes on pages 67 to 101 form an integral part of the financial statements.

Consolidated Balance Sheet (Continued)

31 December 1999

	Notes	1999 Rmb'000	1998 Rmb'000
TOTAL ASSETS LESS CURRENT			
LIABILITIES		11,940,090	11,137,193
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	24	2,053,472	1,746,583
Deferred tax	27	3,346	5,658
Minority interests		1,449,432	1,245,782
		8,433,840	8,139,170
CAPITAL AND RESERVES			
Issued capital	28	4,343,115	4,343,115
Reserves	29	4,090,725	3,796,055
		8,433,840	8,139,170

Geng Xiaoping

Director

Fang Yunti

Director

The notes on pages 67 to 101 form an integral part of the financial statements.

Consolidated Cash Flow Statement

Year ended 31 December 1999

	1999	1998	
	Note	Rmb'000	Rmb'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	30(a)	1,047,828	610,682
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		78,225	62,941
Interest paid		(177,880)	(176,845)
Dividends paid		(217,156)	(69,490)
Dividends paid to minority interests		(6,840)	(11,058)
Dividend from an associate		10,659	—
Net cash outflow from returns on investments and servicing of finance		(312,992)	(194,452)
TAXATION			
Taxes paid		(43,978)	(61,881)
INVESTING ACTIVITIES			
Additions to fixed assets		(187,903)	(566,994)
Additions to construction in progress		(808,691)	(928,607)
Decrease in time deposits		586,490	1,045,423
Decrease in long term investments		2,500	—
Increase in deferred costs		(174)	(2,584)
Increase in short term investments		(96,611)	(972,283)
Acquisition of additional interests in subsidiaries		(565,812)	(457,333)
Acquisition of a jointly-controlled entity		(65,000)	—
Acquisition of a subsidiary		—	640,782
Acquisition of an associate		—	(208,000)
Net cash outflow from investing activities		(1,135,201)	(1,449,596)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES			
		(444,343)	(1,095,247)

The notes on pages 67 to 101 form an integral part of the financial statements.

Consolidated Cash Flow Statement (Continued)

Year ended 31 December 1999

	Note	1999 Rmb'000	1998 Rmb'000
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(444,343)	(1,095,247)
FINANCING ACTIVITIES	30(b)		
New bank and other loans		2,890,122	823,668
Repayment of bank and other loans		(1,996,999)	(780,930)
Minority interests		217,769	489,935
Net cash inflow from financing activities		1,110,892	532,673
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		666,549	(562,574)
Cash and cash equivalents at beginning of year		284,172	846,746
CASH AND CASH EQUIVALENTS AT END OF YEAR		950,721	284,172
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		300,247	232,883
Time deposits with original maturity of less than three months when acquired		650,474	51,289
		950,721	284,172

The notes on pages 67 to 101 form an integral part of the financial statements.

Balance Sheet

31 December 1999

	Notes	1999 Rmb'000	1998 Rmb'000
NON-CURRENT ASSETS			
Fixed assets	13	5,148,878	5,201,739
Interests in subsidiaries	14	3,211,124	2,881,518
Interest in a jointly-controlled entity	15	65,000	—
Interest in an associate	16	208,000	208,000
Expressway operating rights	17	189,512	196,445
Long term investments	18	30,000	—
		8,852,514	8,487,702
CURRENT ASSETS			
Short term investments	18	801,766	759,984
Inventories		810	1,517
Trade receivables	19	4,749	9,257
Other receivables	20	40,770	23,621
Time deposits		417,952	1,004,442
Cash and cash equivalents	21	830,021	185,668
		2,096,068	1,984,489
CURRENT LIABILITIES			
Trade payables		7,315	13,263
Profits tax payable		42,780	5,800
Other taxes payable		4,425	2,923
Other payables and accruals	22	432,827	794,604
Interest-bearing bank and other borrowings	23	1,010,956	474,804
		1,498,303	1,291,394
NET CURRENT ASSETS		597,765	693,095

The notes on pages 67 to 101 form an integral part of the financial statements.

Balance Sheet (Continued)

31 December 1999

	Notes	1999 Rmb'000	1998 Rmb'000
TOTAL ASSETS LESS CURRENT LIABILITIES		9,450,279	9,180,797
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	24	973,534	799,599
Deferred tax	27	3,346	5,658
NET ASSETS		8,473,399	8,375,540
CAPITAL AND RESERVES			
Issued capital	28	4,343,115	4,343,115
Reserves	29	4,130,284	4,032,425
		8,473,399	8,375,540

Geng Xiaoping

Director

Fang Yunti

Director

The notes on pages 67 to 101 form an integral part of the financial statements.

31 December 1999

1. Corporate Information

The registered office of Zhejiang Expressway Co., Ltd. is 19/F, Zhejiang World Trade Centre, 15 Shuguang Road Hangzhou, Zhejiang, the PRC. During the year, the Group was involved in the following principal activities:

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

2. Impact of HKSSAPs

The following Accounting Standards have been adopted for the first time in the preparation of the current year consolidated financial statements.

- HKSSAP 1: Presentation of Financial Statements
- HKSSAP 2: Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies
- HKSSAP 10: Accounting for Investments in Associates
- HKSSAP 24: Accounting for Investments

The following is a summary of the major effects of their respective adoption.

HKSSAP 1 prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content therein. The format of the consolidated income statement and the balance sheets set out on pages 59, 61 and 62 respectively, has been revised in accordance with the HKSSAP, and a new statement of recognised gains and losses, not previously required, is included on page 60. Additional disclosures as required are included in the supporting notes thereto.

HKSSAP 2 prescribes the classification, disclosure and accounting treatment of certain items in the income statement, and specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors.

HKSSAP 10, which prescribes the accounting treatment for investments in associates, is very similar in most respects to the previous HKSSAP 10, and accordingly has had no major impact on these financial statements. The terminology used and certain disclosures have been revised in line with the new requirements.

Notes to Financial Statements

31 December 1999

2. Impact of New HKSSAPs (Continued)

HKSSAP 24 prescribes the accounting treatment and disclosures for investments in debt and equity securities, including in certain circumstances alternative accounting treatments. For these financial statements, short term investments in securities held for trading purposes are also stated at their fair values, with differences in valuation being charged or credited to the income statement. The effect of the change of accounting policy, which has been treated as a prior year adjustment, is explained in note 31 to the financial statements.

3. Summary of Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, modified with respect to the measurement of investments in securities, as further explained below.

Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended 31 December 1999. 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.

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.

3. Summary of Significant Accounting Policies *(Continued)*

Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The joint venture arrangements which involve the establishment of a separate entity in which the Group and other parties have an interest are referred to as jointly-controlled entities.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in jointly-controlled entities 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 diminutions in values, other than those considered temporary in nature, deemed necessary by the directors.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as long term investments and are stated at cost less any provisions for diminutions in values, other than those considered temporary in nature, deemed necessary by the directors.

Associates

An associate is an enterprise, not being a subsidiary or a joint venture, 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 associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates 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 diminutions in values, other than those considered temporary in nature, deemed necessary by the directors.

31 December 1999

3. Summary of Significant Accounting Policies *(Continued)*

Associates *(Continued)*

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are stated at cost less any provisions for diminutions in values, other than those considered temporary in nature, deemed necessary by the directors.

Goodwill

Goodwill arising on consolidation of subsidiaries and on acquisition of associates and jointly-controlled entities represents the excess purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. On disposal of subsidiaries, associates or jointly-controlled entities, 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.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price, costs transferred from construction in progress and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the tangible fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is 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 capitalised 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 average rates ranging from 7% to 8.77% per annum, up to the expiry of the underlying 30-year expressway concession period will be equal to the total cost of the expressways and bridges.

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

3. Summary of Significant Accounting Policies *(Continued)*

Fixed assets and depreciation *(Continued)*

Depreciation of fixed assets, other than expressways, bridges and land, is provided 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:

	Estimated useful life	Annual depreciation rate
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 recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress

Construction in progress represents costs incurred in the construction of expressways and bridges. Costs comprise 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 amortisation.

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

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3. Summary of Significant Accounting Policies *(Continued)*

Long term investments

Long term investments are non-trading investments in listed and unlisted securities intended to be held on a long term basis.

Held-to-maturity securities are stated at cost plus or minus the cumulative amortisation of the difference between the purchase price and the maturity amount, less any provision for permanent diminutions considered necessary by the directors, on an individual basis. The provision is recognised as an expense immediately. The profit or loss on disposal of a held-to-maturity security is accounted for in the period in which the disposals occurs and is the difference between the net sales proceeds and the carrying amount of the security.

Unlisted equity securities are stated at cost, less any provisions for permanent diminutions considered necessary by the directors, on an individual basis. The provision is recognised as an expense immediately. The profit or loss on disposal of an unlisted security is accounted for in the period in which the disposals occurs and is the difference between the net sales proceeds and the carrying amount of the security.

Short term investments

Short term investments are investments in securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement for the period in which they arise.

Revenue recognition

Revenue is recognised 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 buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

3. Summary of Significant Accounting Policies *(Continued)*

Revenue recognition *(Continued)*

- (c) on the rendering of services, based on the percentage of completion basis, 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 terms;
- (e) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (f) dividends, when the shareholders' right to receive payment is established.

Tax

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.

Deferred taxation is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation 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 income statement unless such exchange differences relate to funds borrowed specifically for the financing of construction of expressways and bridges, in which case they are capitalised to the extent that they can be regarded as an adjustment to interest costs.

31 December 1999

3. Summary of Significant Accounting Policies *(Continued)*

Capitalisation of borrowing costs

Borrowing costs directly attributable to the construction of expressways, tunnels and bridges are capitalised 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 recognised as an expense in the period in which they are incurred.

The amount of borrowing costs capitalised 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.

Capitalisation 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.

Operating Leases

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 income statement on a straight-line basis over the lease terms.

Inventories

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

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

For the purpose of the consolidated cash flow statement, 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. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. Turnover and Revenue

Turnover mainly represents toll income from the operation of expressways, the value of advertising services rendered, and the value of road maintenance services rendered, net of relevant revenue taxes.

An analysis of turnover and revenue is as follows:

	1999 Rmb'000	1998 Rmb'000
Toll income	1,087,672	658,505
Advertising income	5,859	2,231
Road maintenance income	6,971	24,843
Others	9,918	5,697
	<hr/> 1,110,420	691,276
Less: Revenue taxes	(59,922)	(36,207)
	<hr/> Turnover	655,069
Exchange gains	—	2,057
Dividend income from unlisted investments	107	179
Income on short term investments in securities	77,577	150,003
Interest income	79,579	71,801
Rental income	4,893	1,213
Trailer income	4,309	5,408
Others	1,063	3,912
	<hr/> Other revenue	234,573
Revenue	<hr/> 1,218,026	889,642

Notes to Financial Statements

31 December 1999

4. Turnover and Revenue (Continued)

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

- Business Tax ("BT"), levied at 3% to 5% on toll income and other service income;
- City Development Tax, levied at 1% to 7% of BT;
- Education Supplementary Tax, levied at 3.5% to 4% of BT; and
- Culture & Education Fees, levied at 3% on advertising income.

5. Profit From Operating Activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	1999	1998
	Rmb'000	Rmb'000
Depreciation	140,127	85,524
Operating lease rentals on land and buildings	526	2,839
Auditors' remuneration	1,842	1,366
Staff costs:		
Wages and salaries	48,865	34,219
Pension contributions	3,052	2,964
Amortisation of deferred costs	5,102	837
Amortisation of expressway operating rights	8,700	6,933
Provision for anticipated deficit arising on the disposal of staff quarters	—	15,300
Loss on disposal of fixed assets	3,028	2,681
Net rental income	(4,893)	(1,213)
Exchange losses / (gains)	182	(2,057)
Dividend income from unlisted investments	(107)	(179)
Interest income	(79,579)	(71,801)
Income from short term investments	(77,577)	(150,003)

6. Finance Costs

	1999 Rmb'000	1998 Rmb'000
Interest on bank loans and other loans		
wholly repayable within five years	117,446	103,385
Interest on other loans	70,319	73,460
<hr/>		
Total finance costs	187,765	176,845
<hr/>		
Interest capitalised	(14,843)	(82,104)
<hr/>		
	172,922	94,741
<hr/>		

7. Tax

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.

According to an approval from Zhejiang Provincial Local Tax Bureau dated 14 February 2000, Shangsan Co was qualified for the exceptions under the category of "New enterprise providing employment opportunities to redundant workers" as defined in the relevant national tax rules, and therefore, was entitled to an exemption from EIT for three years starting from 1 January 1998.

Pursuant to a series of directives issued by Zhejiang Provincial People's Government, and the Municipal Governments of Yuhang and Jiaxing in 1997, the Company, Yuhang Co and Jiaxing Co were entitled to respective refunds from the Zhejiang Finance Bureau or the Municipal Finance Bureau of Yuhang and Jiaxing, of an amount equal to 18% of their taxable income in respect of the EIT paid to the taxation bureau, respectively.

Notes to Financial Statements

31 December 1999

7. Tax (Continued)

The tax refunded and refundable represents the tax subsidies received during the year or immediately after the year end. It is the directors' opinion that these refunds are received without recourse. Notwithstanding this, as a result of the State Council's newly released directive numbered Guo Fa [2000]2 in respect of correcting the tax refund policies adopted by local governments with effect from 1 January 2000, the Company is seeking clarification and advice from relevant government authorities as to whether the Company and its subsidiaries may or may not continue to enjoy the 18% tax refund in the future. Should the aforementioned directive be applicable to the entitlement of the Group's existing preferential tax treatment, the Group, according to the directive and with the assistance from Zhejiang Provincial Government, will make an application to the relevant national authorities to enable the Company to continue to enjoy the relevant financial subsidies as a major transportation infrastructure investment enterprise listed abroad. However, there is no assurance that the application will be approved.

	1999 Rmb'000	1998 Rmb'000
Group:		
Tax charged	166,839	142,703
Overprovision in prior year	(10,930)	—
Tax refunded/refundable	(82,966)	(77,788)
	<hr/>	<hr/>
	72,943	64,915
Deferred - note 27	(2,312)	2,616
	<hr/>	<hr/>
Share of tax attributable to an associate	7,443	6,264
overprovision in an associate in prior year	(6,264)	—
	<hr/>	<hr/>
Tax charge for the year	71,810	73,795
	<hr/>	<hr/>

There was no material unprovided deferred tax in respect of the year (1998 : Nil).

8. Net Profit From Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is Rmb336,731,000 (1998: Rmb333,768,000).

9. Directors' Remuneration

Directors' remuneration disclosed pursuant to the Listing Rules and Section S161 of the Companies Ordinance is as follows:

	1999 Rmb'000	1998 Rmb'000
Fees	—	—
Other emoluments:		
Salaries, allowances and benefits in kind	1,286	1,166
	1,286	1,166

Salaries, allowances and benefits in kind include HK\$120,000 (1998: HK\$100,000) payable to each of the independent non-executive directors. There was no other emoluments payable to the independent non-executive directors during the year (1998: Nil).

The remuneration of the directors fell within the following band:

	Number of directors	
	1999	1998
Nil to Rmb500,000	9	9

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

10. Five Highest Paid Employees

The five highest paid employees during the year included five (1998: five) directors, details of whose remuneration are set out in note 9 above.

Notes to Financial Statements

31 December 1999

11. Dividends

Company	1999 Rmb'000	1998 Rmb'000
Interim - Rmb0.015 (approximately HK\$0.014) per share (1998: Nil)	65,147	—
Proposed final - Rmb0.04 (approximately HK\$0.037) per share (1998: Rmb0.035 (approximately HK\$0.033) per share)	173,725	152,009
	238,872	152,009

12. Earnings Per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of Rmb548,311,000 (1998: Rmb404,391,000) and the 4,343,114,500 shares (1998: 4,343,114,500 shares) in issue during the year.

Diluted earnings per share for the years ended 31 December 1999 and 1998 have not been calculated as no diluting event existed during these years.

13. Fixed Assets

	Land Rmb'000	Expressways 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	Construction in progress Rmb'000	Total Rmb'000
Group								
Cost:								
At 1 January 1999								
At 1 January 1999	527,628	8,098,739	83,883	8,485	31,448	65,938	1,189,187	10,005,308
Additions	—	—	4,798	—	2,086	3,176	892,776	902,836
Transfers	—	30,255	125,790	—	—	108,860	(264,905)	—
Disposals	—	—	(7,564)	—	(206)	(40)	—	(7,810)
At 31 December 1999	527,628	8,128,994	206,907	8,485	33,328	177,934	1,817,058	10,900,334
Accumulated depreciation:								
At 1 January 1999	18,264	103,523	6,429	401	4,423	10,079	—	143,119
Provided during the year	17,570	91,448	10,124	819	4,009	16,157	—	140,127
Written off on disposals	—	—	(4,566)	—	(206)	(10)	—	(4,782)
At 31 December 1999	35,834	194,971	11,987	1,220	8,226	26,226	—	278,464
Net book value:								
At 31 December 1999	491,794	7,934,023	194,920	7,265	25,102	151,708	1,817,058	10,621,870
At 31 December 1998	509,364	7,995,216	77,454	8,084	27,025	55,859	1,189,187	9,862,189
Company								
Cost:								
At 1 January 1999	350,384	4,712,616	65,658	8,472	20,654	64,355	107,258	5,329,397
Additions	—	—	—	—	1,464	—	33,887	35,351
Transfers	—	—	29,925	—	—	108,818	(138,743)	—
Disposals	—	—	(218)	—	—	(40)	—	(258)
At 31 December 1999	350,384	4,712,616	95,365	8,472	22,118	173,133	2,402	5,364,490
Accumulated depreciation:								
At 1 January 1999	17,994	92,298	2,910	401	4,144	9,911	—	127,658
Provided during the year	11,668	55,253	3,789	817	2,447	14,027	—	88,001
Written off on disposals	—	—	(37)	—	—	(10)	—	(47)
At 31 December 1999	29,662	147,551	6,662	1,218	6,591	23,928	—	215,612
Net book value:								
At 31 December 1999	320,722	4,565,065	88,703	7,254	15,527	149,205	2,402	5,148,878
At 31 December 1998	332,390	4,620,318	62,748	8,071	16,510	54,444	107,258	5,201,739

All fixed assets are located in the PRC.

Notes to Financial Statements

31 December 1999

14. Interests in Subsidiaries

	Company	
	1999	1998
	Rmb'000	Rmb'000
Unlisted shares, at cost	3,196,754	2,861,875
Due from subsidiaries	28,175	19,643
Due to subsidiaries	(13,805)	—
	<hr/>	<hr/>
	3,211,124	2,881,518
	<hr/>	<hr/>

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayments.

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	75,223,000	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	

14. Interests in Subsidiaries (Continued)

Name of subsidiaries	Date and place of registration	Registered capital	Percentage of equity attributable to the Company		Principal activities
Zhejiang Shangsan Expressway Company Limited ("Shangsan Co")	Note 4	2,400,000,000	55%		Investing, construction and operating the Shangsan Expressway
Zhejiang Expressway Advertising Company Limited ("Advertising Co")	Note 5	1,000,000	70%		Advertising

Note 1. Yuhang Co was established on 7 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 28 November 1996.

Note 2. Jiaxing Co was established on 30 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 29 November 1996.

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

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

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

Notes to Financial Statements

31 December 1999

15. Interest in a Jointly-Controlled Entity

	Group		Company	
	1999	1998	1999	1998
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Unlisted shares, at cost	—	—	65,000	—
Share of net assets other than goodwill	65,000	—	—	—
	65,000	—	65,000	—

Particulars of the jointly-controlled entity, which is directly held by the Company, are as follows:

Name	Place of		Percentage of			Principal activities
	Business structure	registration and operations	Ownership interest	Voting power	Profit sharing	
Hangzhou Shida Expressway Co., Ltd. ("Shida Co")	Corporate	the PRC	50%	50%	50%	Investing, constructing and operating of Shiqiao-Dajing Road ("Shida Road")

16. Interest in an Associate

	Group		Company	
	1999	1998	1999	1998
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Unlisted shares, at cost	—	—	208,000	208,000
Share of net assets other than goodwill	231,439	220,718	—	—
	231,439	220,718	208,000	208,000

The Group's share of post-acquisition accumulated reserves of the associate at 31 December 1999 was Rmb23,439,000 (1998: Rmb12,718,000).

Particulars of the associate, which is directly held by the Company, are as follows:

Name	Business structure	Place of registration and operations	Percentage of equity attributable to the Group		Principal activities
			1999	1998	
Zhejiang Expressway Petroleum Development Co., Ltd. ("Petroleum Co")	Corporate	the PRC	50%	50%	Constructing and operating of gas stations and the sale of petroleum products

The financial statements of the above associate are coterminous with those of the Group. The consolidated financial statements have been adjusted for material transactions between the associate and Group companies.

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17. Expressway Operating Rights

	Group	Company
	Rmb'000	Rmb'000
Cost:		
At 1 January and 31 December 1999	261,000	208,000
Amortisation:		
At 1 January 1999	11,555	11,555
Provided during the year	8,700	6,933
At 31 December 1999	20,255	18,488
Net book value:		
At 31 December 1999	240,745	189,512
At 31 December 1998	249,445	196,445

18. Investments

Long term investments

	Group	Company		
	1999	1998	1999	1998
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Held-to-maturity securities	30,000	—	30,000	—
Unlisted equity investments, at cost	8,650	11,149	—	—
	38,650	11,149	30,000	—

18. Investments (continued)

Short term investments

	Group		Company	
	1999	1998	1999	1998
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Listed government debentures, at market value				
- PRC	1,083,394	1,016,783	801,766	759,984
	1,083,394	1,016,783	801,766	759,984

The market value of the Group's short term investments at the date of approval of these financial statements was approximately Rmb1,082,974,000 (1998: Rmb1,027,052,000).

19. Trade Receivables

	Group		Company	
	1999	1998	1999	1998
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Trade receivables	4,749	11,560	4,749	9,257
Provision for doubtful debts	—	—	—	—
Trade receivables, net	4,749	11,560	4,749	9,257

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20. Other Receivables

	Note	Group		Company	
		1999	1998	1999	1998
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Prepayments		77,680	246,673	1,832	1,121
Deposits and other debtors		133,468	43,346	15,605	19,337
Due from related parties	25	—	119	—	—
Profits tax refundable		58,971	36,615	23,333	3,163
		270,119	326,753	40,770	23,621

21. Cash and Cash Equivalents

	Group		Company	
	1999	1998	1999	1998
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Cash and bank balances	300,247	232,883	179,547	145,380
Time deposits	650,474	51,289	650,474	40,288
	950,721	284,172	830,021	185,668

22. Other Payables and Accruals

	Notes	Group		Company	
		1999	1998	1999	1998
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Accruals		130,653	114,366	99,859	80,940
Other liabilities		94,824	516,906	65,047	492,635
Due to related parties	25	88,449	85,889	88,449	64,273
Due to the holding company	26	36,647	3,445	5,747	4,747
Proposed final dividend	11	173,725	152,009	173,725	152,009
		524,298	872,615	432,827	794,604

23. Interest-Bearing Bank and Other Borrowings

	Note	Group		Company	
		1999	1998	1999	1998
		Rmb'000	Rmb'000	Rmb'000	Rmb'000
Current portion of bank and other borrowings	24	1,106,425	520,191	1,010,956	474,804
		1,106,425	520,191	1,010,956	474,804

Notes to Financial Statements

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24. Interest-Bearing Bank and Other Loans

	Group		Company	
	1999	1998	1999	1998
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Bank loans:				
Secured	30,000	100,000	—	100,000
Unsecured	1,140,000	310,000	1,090,000	280,000
	1,170,000	410,000	1,090,000	380,000
Other loans:				
Unsecured	1,989,897	1,856,774	894,490	894,403
	3,159,897	2,266,774	1,984,490	1,274,403
Bank loans repayable:				
Within one year	910,000	410,000	830,000	380,000
In the second year	100,000	—	100,000	—
In the third to fifth years, inclusive	160,000	—	160,000	—
Beyond five years	—	—	—	—
	1,170,000	410,000	1,090,000	380,000
Other loans repayable:				
Within one year	196,425	110,191	180,956	94,804
In the second year	138,282	93,040	72,302	86,041
In the third to fifth years, inclusive	643,038	371,120	252,767	150,197
Beyond five years	1,012,152	1,282,423	388,465	563,361
	1,989,897	1,856,774	894,490	894,403
Portion classified as current				
liabilities-note 23	(1,106,425)	(520,191)	(1,010,956)	(474,804)
Long term portion	2,053,472	1,746,583	973,534	799,599

24. Interest-Bearing Bank and Other Loans (Continued)

- (a) Included in the total bank loans of Rmb1,170,000,000, an amount of Rmb30,000,000 is secured by time deposits of Rmb20,000,000 and cash and bank balances of Rmb10,844,151. The remaining balance is unsecured. Bank loans bear interest at rates ranging from 5.022% to 6.327% per annum.
- (b) Other loans are unsecured and bear interest at rates ranging from 3% to 8.53% per annum.

25. Balances with Related Parties

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

26. Amount Due to the Holding Company

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

27. Deferred Tax

	Group and Company	
	1999	1998
	Rmb'000	Rmb'000
Balance at beginning of year	5,658	3,042
Charge/(credit) for the year - note 7	(2,312)	2,616
At 31 December	3,346	5,658

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

Notes to Financial Statements

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28. Share Capital

	1999	1998		
	Number of shares	Number of shares	1999 Rmb'000	1998 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 15 May 1997.

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

29. 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
Group						
At 1 January 1998	3,645,082	(3,967)	30,169	15,084	170,585	3,856,953
Capital reserve on acquisition of a subsidiary	—	9,805	—	—	—	9,805
Goodwill arising on acquisition of additional interest in a subsidiary	—	(323,085)	—	—	—	(323,085)
Net profit for the year	—	—	—	—	385,258	385,258
Transfer from/(to) reserves	—	—	50,437	25,219	(75,656)	—
Dividends - note 11	—	—	—	—	(152,009)	(152,009)
<hr/>						
At 31 December 1998 and beginning of year	3,645,082	(317,247)	80,606	40,303	328,178	3,776,922
Prior year adjustment - note 31	—	—	—	—	19,133	19,133
<hr/>						
At 31 December 1998 and beginning of year -restated	3,645,082	(317,247)	80,606	40,303	347,311	3,796,055
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Goodwill on acquisition of additional interest in a subsidiary	—	(14,769)	—	—	—	(14,769)
Net profit for the year	—	—	—	—	548,311	548,311
Transferred from/(to) reserves	—	—	102,384	42,553	(144,937)	—
Dividends - note 11	—	—	—	—	(238,872)	(238,872)
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At 31 December 1999	3,645,082	(332,016)	182,990	82,856	511,813	4,090,725

Notes to Financial Statements

31 December 1999

29. Reserves (Continued)

	Share premium account Rmb'000	Statutory surplus reserve Rmb'000	Public welfare fund Rmb'000	Retained profits Rmb'000	Total Rmb'000
Company					
Balance at 1 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 11	—	—	—	(152,009)	(152,009)
At 31 December 1998 and					
beginning of year	3,645,082	63,595	31,797	272,818	4,013,292
Prior year adjustment - note 31	—	—	—	19,133	19,133
At 31 December 1998 and					
beginning of year -restated	3,645,082	63,595	31,797	291,951	4,032,425
Net profit for the year	—	—	—	336,731	336,731
Transferred from/(to) reserves	—	52,316	26,159	(78,475)	—
Dividends — note 11	—	—	—	(238,872)	(238,872)
At 31 December 1999	3,645,082	115,911	57,956	311,335	4,130,284

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

29. Reserves (continued)

In addition, Shangsan Co and Petroleum Co were required by the relevant tax authorities to transfer the EIT waived for 1998 to their respective SSR account in 1999. The transfer has been incorporated in these financial statements.

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

The directors of the Company have proposed to transfer Rmb52,316,000 and Rmb26,159,000 to the SSR and the PWF, respectively. This represents 15% of the Company's profit after taxation of Rmb523,165,000 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 31 December 1999, the Company had reserves of approximately Rmb311,335,000 available for distribution by way of cash or in kind.

As at 31 December 1999, 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 capitalisation issues.

Notes to Financial Statements

31 December 1999

30. Notes to the Cash Flow Statement

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

	1999	1998
	Rmb'000	Rmb'000
Profit from operating activities	856,915	622,859
Depreciation	140,127	85,524
Amortisation of deferred costs	5,102	837
Amortisation of expressway operating rights	8,700	6,933
Interest income	(79,579)	(71,801)
Loss on disposal of fixed assets	3,028	2,681
Provision for anticipated deficit arising on the disposal of staff quarters	—	15,300
Unrealised gain from short-term investments	—	(22,509)
Decrease/(increase) in inventories	802	(1,451)
Decrease/(increase) in trade receivables	6,811	(1,931)
Decrease/(increase) in deposits and other debtors	41,762	(19,854)
Decrease in trade payables	(4,126)	—
Increase/(decrease) in amount due to the holding company	33,202	(16,334)
Decrease in amounts due from related parties, net	119	1,500
Increase/(decrease) in other taxes payable	(6,687)	1,057
Increase/(decrease) in other liabilities	35,252	(70,966)
Increase in accruals	6,400	78,837
 Net cash inflow from operating activities	 1,047,828	 610,682

30. Notes to the Cash Flow Statement (Continued)

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

	Bank and other loans Rmb'000	Minority interests Rmb'000
Balance at 1 January 1998	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 paid to minority interests	—	(11,058)
Profit attributable to minority interests	—	68,914
<hr/>	<hr/>	<hr/>
Balance at 31 December 1998 and 1 January 1999	2,266,774	1,245,782
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Cash inflows from financing	893,123	217,769
Arising from dilution of minority interests	—	(93,710)
Dividends paid to minority interests	—	(6,840)
Profit attributable to minority interests	—	86,431
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Balance at 31 December 1999	3,159,897	1,449,432
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31. Change in Accounting Policy with Respect to the Investment in Securities

A restatement of the carrying values of the Group's and the Company's short term investments in securities to their fair values (i.e. the market value), retrospectively, amounting to Rmb19,133,000 (net of deferred tax) was made in accordance with the newly adopted HKSSAP24.

Notes to Financial Statements

31 December 1999

32. Commitments

	Group		Company	
	1999	1998	1999	1998
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Contracted, but not provided for:				
Construction of expressways	776,119	831,714	—	29,540
Proposed investments in the				
Shangsan Expressway	—	—	189,750	410,550
Others	8,397	14,394	—	—
Authorised, but not contracted for:				
Construction of expressways	2,467,163	2,609,547	462,021	—
	3,251,679	3,455,655	651,771	440,090

33. Differences in Financial Statements Prepared Under PRC and Hong Kong Accounting Standards

	Net assets			
	Profit after taxation		as at 31 December	
	1999 Rmb'000	1998 Rmb'000	1999 Rmb'000	1998 Rmb'000
As reported in statutory accounts	615,742	435,247	8,694,253	8,390,721
HKSSAP adjustments:				
(a) Goodwill	33,016	31,605	(267,395)	(285,642)
(b) Provision for anticipated deficit arising on the disposal of staff quarters	—	(15,300)	(15,300)	(15,300)
(c) Interest on H shares subscription monies	(6,135)	(4,310)	6,794	12,929
(d) Depreciation provided	67	4,427	6,592	6,317
(e) Difference in capital surplus during establishment	—	—	11,923	11,923
(f) Provision for profits tax refundable	(7,230)	—	(3,687)	—
(g) Restatement of short term investments in securities	(19,133)	19,133	—	19,133
(h) Recognition of tax exemption related to 1998	17,194	—	—	—
(i) Others	1,221	2,503	660	(911)
As restated in the financial statements	634,742	473,305	8,433,840	8,139,170

31 December 1999

34. 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 ("Provincial Investment Co"), a state-owned enterprise established in the PRC.

35. Related Party Transactions

The following is a summary of 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 reorganisation agreement, 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 reorganisation and general indemnity provisions against any breach of representation warranty and undertakings contained in the agreement.

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 31 December 1999, was assumed by the Company. The loan repayment responsibility for the Shanghai-Hangzhou Expressway, which amounted to US\$103,551,916 as at 31 December 1999, was assumed by Yuhang Co and Jiaxing Co.

Pursuant to a supplemental agreement dated 18 April 1997, the Company, 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 reorganisation agreement 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.

35. Related Party Transactions (continued)

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 in respect of these loans amounted to Rmb7,000,000. There was no further drawdown and repayment of interest expenses during the year. At 31st December 1999, Jiaxing Co had no outstanding loan balance and the outstanding loan balance for Yuhang Co amounted to Rmb78,070,000. All of these loans are unsecured. The terms of the loans to the executive commissions 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 fixed assets of Rmb108,524,000, liabilities of Rmb89,346,000 and the repayment obligation on the World Bank funding of US\$2,317,000 (equivalent to Rmb19,178,000) in the financial statements.

36. Comparative Amounts

As further explained in note 2 to the financial statements, due to the adoption of new HKSSAPs during the current year, the presentation of the consolidated income statement, the balance sheets and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

37. Approval of Financial Statements

The financial statements were approved by the board of directors on 22 February 2000.

Corporate Information

Executive Directors

Geng Xiaoping
Fang Yunti
Zhang Jingzhong
Xuan Daoguang

Non-executive Directors

Xia Linzhang
Zhang Chunming

Independent Non-executive Directors

Hu Hung Lick, Henry
Tung Chee Chen
Zhang Junsheng

Supervisors

Xiao Hua
Ni Cifang
Lu Feng
Sun Xiaoxia
Zheng Qihua

Legal Advisers

As to Hong Kong law:

Herbert Smith
23rd Floor, Gloucester Tower
11 Pedder Street, Central
Hong Kong

As to PRC Law:

T & C Law Firm
18/F, Block A
100 Moganshan Road,
Yaojiang International Building,
Hangzhou, Zhejiang
PRC

Auditors and Reporting Accountants

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

Sponsor

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

Company Secretary

Mr. Zhang Jingzhong

Authorised Representatives

Mr. Geng Xiaoping
Mr. Zhang Jingzhong

Business Address

19/F, Zhejiang World Trade Centre
15 Shuguang Road
Hangzhou City, Zhejiang Province
PRC 310007
Tel: 86-571-7985588
Fax: 86-571-7985599

Place of Business in Hong Kong

c/o Ernst & Young
11th Floor, Tower 2
The Gateway
25-27 Canton Road
Kowloon
Hong Kong

H Share Registrar and Transfer Office

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

Principal Bankers

Bank of China, Zhejiang Branch
Industrial and Commercial Bank of China, Zhejiang Branch
Agriculture Bank of China, Zhejiang Branch
Shanghai Pudong Development Bank, Hangzhou Branch

Listing Information

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