



## SHENZHEN EXPRESSWAY COMPANY LIMITED

### 深圳高速公路股份有限公司

(A joint stock limited company incorporated in People's Republic of China with limited liability)

#### 2001 INTERIM RESULTS ANNOUNCEMENT

#### INTERIM RESULTS

The Directors of Shenzhen Expressway Company Limited (the "Company") are pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June, 2001 (the "Period"), prepared in accordance with Hong Kong accounting principles, together with comparative figures for the corresponding period in 2000 as follows:

#### Condensed Consolidated Profit and Loss Account (unaudited)

		For the six months ended 30 June	
		2001	2000
	Notes	RMB'000	RMB'000
Turnover	2	219,700	208,585
Other revenue		38,838	15,746
Depreciation and amortisation		(30,754)	(29,411)
Staff costs		(14,590)	(15,125)
Road maintenance expenses		(5,663)	(6,287)
Other operating expenses		(13,534)	(8,242)
Operating profit	3	193,997	165,266
Financial costs		(18,483)	(20,512)
Share of results before taxation of jointly controlled entities		29,646	29,503

Profit before taxation		<b>205,160</b>	174,257
Taxation	4	<b>(96)</b>	(145)
Profit after taxation		<b>205,064</b>	174,112
Minority interests		<b>(1,468)</b>	(1,005)
Profit attributable to shareholders		<b>203,596</b>	173,107
Transfer to reserves		-	(32,968)
Retained earnings brought forward		<b>203,596</b>	140,139
		<b>257,257</b>	152,779
		<b>460,853</b>	292,918
Dividends	5	<b>(201,570)</b>	(120,942)
Retained earnings carried forward		<b>259,283</b>	171,976
Earnings per share	6	<b>RMB10.10 cents</b>	RMB8.59 cents

*Notes:*

## **1. Principal accounting policies**

The above unaudited condensed consolidated profit and loss account has been prepared in accordance with Hong Kong Statement of Standard Accounting Practice SSAP25, "Interim financial reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements as stipulated in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. This basis of accounting differs in certain material respects from that used in the preparation of the Group's statutory accounts in the PRC. The PRC statutory accounts of the Group have

been prepared in accordance with accounting principles and financial regulations applicable to joint stock limited companies in the PRC. Appropriate restatements have been made to the interim financial statements to conform with HK GAAP. Differences arising from the restatements are not incorporated in the Group's PRC statutory accounts.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December, 2000 except that the Group has changed its accounting policies following its adoption of SSAP9 (revised) "Events after the balance sheet date" issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1 January, 2001:

In accordance with the SSAP9 (revised), the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparative figures presented have been restated to conform to the changed policy.

Retained earnings at 1 January, 2000 and 1 January, 2001 have increased by RMB120,942,000 and RMB201,570,000, respectively, which were proposed final dividends for 1999 and 2000 after the balance sheet date recognised as liabilities at 31 December, 1999 and 31 December, 2000 at the balance sheet date and are restated accordingly. This adjustment of accounting policy has resulted in a decrease in current liabilities at 31 December, 2000 by RMB201,570,000.

## **2. Turnover**

Turnover represents toll revenue from operations of toll roads, net of relevant business tax and surcharge.

No segment information is presented as all turnover of the Group is toll income derived from the PRC.

## **3. Operating profit**

Operating profit is stated after crediting and charging the following:

<b>For the six months ended 30 June</b>	
<b>2001</b>	<b>2000</b>
<b><i>RMB'000</i></b>	<b><i>RMB'000</i></b>

## Crediting

Realised gains on disposal of other investments	<b>3,489</b>	1,948
Unrealised gains on other investments	<b>7,135</b>	-
Net exchange gains	<b>101</b>	-

## Charging

Provision for staff welfare and bonus	<b>865</b>	930
Auditors' remuneration	<b>530</b>	500
Fixed assets discarding loss	<b>267</b>	19
Net exchange loss	-	145

## 4. Taxation

- (a) The Company is subject to PRC enterprise income tax of 15%, the preferential tax rate for enterprises established in Shenzhen Special Economic Zone, as compared with the standard rate of 33%. Pursuant to the approvals granted by relevant PRC authorities, the Company, together with one of its subsidiaries and a jointly controlled entity, are exempted from the PRC enterprise income taxes for the five consecutive years in which they record assessable profits and a 50% reduction of the PRC enterprise income taxes for the five consecutive years thereafter. As the aforementioned companies are still operating within the full PRC enterprise income tax exemption period, no provision for the PRC enterprise income tax has been made in the interim financial statements in respect of these companies.

The PRC enterprise income tax included in the consolidated profit and loss account has been calculated on the basis of the assessable profits of other subsidiaries and jointly controlled entities for the Period at the rates of taxation applicable to these companies.

- (b) No provision for Hong Kong profits tax has been made in the interim financial statements as the Group has no income assessable to Hong Kong profits tax for the Period.
- (c) No provision for deferred taxation has been made in the interim results for the Period as the effect of timing differences is not significant to the Group.

## 5. Dividends

**For the six months ended 30 June**

	<b>2001</b>	2000
	<i><b>RMB'000</b></i>	<i>RMB'000</i>

Final dividend of RMB0.10 per ordinary share (1999: RMB0.06)	(a) <b>201,570</b>	120,942
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(a) Dividends for 2000 proposed after the balance sheet date were credited in 2000 annual financial statements as RMB201,570,000 (1999: RMB120,942,000). Under the Group's new accounting policy as described in Note 1, these have been written back against opening retained earnings as at 1st January 2000 and 2001 and are now charged in the period in which they were proposed.

(b) The Directors do not recommend the payment of an interim dividend for the Period.

## **6. Earnings per share**

The calculation of earnings per share is based on the profit attributable to shareholders of RMB203,596,000 (2000: RMB173,107,000) and the number of 2,015,700,000 (2000: 2,015,700,000) ordinary shares in issue during the Period.

## **INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the Period (2000: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

The Group has achieved a turnover of RMB219.7 million from the operation of toll roads for the Period, with an increase of 5.33% as compared with the corresponding period of 2000. Profit attributable to shareholders amounted to RMB203.6 million, representing a growth of 17.61% over the same period of 2000. Earnings per share for the Period are RMB0.101, representing an increase of 17.58% over the same period of 2000.

### **Business Review**

The traffic volume and toll revenue of expressways continue to grow

During the Period, the expressways operated by the Group grew at a fast pace. Meiguan Expressway and Jihe Expressway have become the main drivers of the Company's continuous profit growth, and they will continue to play important roles in the Company's future development.

Since the completion of Guanshen Expressway in October 2000, which connects with Meiguan Expressway, the traffic volume and toll revenue of Meiguan Expressway has entered a new stage of growth, with its toll revenue increasing sharply by 35.6%. Though the toll revenue growth of Jihe Expressway (Eastern Section) had slowed after a high growth of 35% in 2000, it still recorded a toll revenue growth of 11.2% in the first half of 2001. Jihe Expressway (Western Section) witnessed remarkable growth in traffic volume, with its toll revenue increasing by 20.1%.

The passage conditions of national highways were improved, and toll revenue of national highways recovered

During the Period, the Company improved the passage conditions of its two national highways. Besides, non-stop toll collection systems of the above highways were installed. The toll revenue of the above national highways recovered after strengthening the control of traffic distraction on certain sections of the above highways.

Unsatisfactory performance of Changsha Ring Road and the newly opened Yanba Expressway (Section A)

Owing to the noncompletion of the surrounding road network and the unopening of two toll plazas, the traffic volume and toll revenue of Changsha Ring Road (Northwestern Section) are still at a low level. Yanba Expressway (Section A) commenced operation on 16 April, 2001. Owing to the short length, the noncompletion of the surrounding road network and the short period of opening, its toll revenue is at a low level.

## **MAJOR INVESTMENTS AND FINANCING**

The major investment of the Company, Yanba Expressway (Section A) commenced operation on 16 April, 2001. The Company is settling up the payments of the construction costs of the project. The total investment of the project is estimated to be approximately RMB800 million, RMB300 million out of which comes from the financial assistance of Shenzhen Municipal Government.

The major investment approved by the Directors of the Company is the construction of Sections B and C of Yanba Expressway, which will be funded by the proceeds raised through the issue of Renminbi-denominated ordinary shares (A Shares) in the PRC. The Company is conducting the feasibility studies of Yantian 葵 aibang Expressway ("Yanpai Expressway") and other planned expressways in Shenzhen. If the above projects are approved by the relevant PRC authorities, the Company may consider to raise funds through bank loans, capital financing, issue of convertible bonds and financial assistance. The Company does not have any plans for capital financing or issue of convertible bonds within this year, apart from the proposed A Share issue in the PRC.

## **PLANNING AND OUTLOOK**

China's imminent accession to the World Trade Organization will further boost the economic development of China. Trade activities will become more and more active, and imports and exports will grow at an even higher rate. That will in turn pose a pressing demand for highway transportation.

The Company will further strengthen its monitoring and control on decision-making, study and establish the future development strategy of the Company. It will continue to expand its operation of expressways in Shenzhen. The Company will further enhance its operating capacity by way of active marketing, tight control of costs and installation of non-stop toll collection systems. In the meantime, it will actively develop other activities. The Company has appointed a professional consulting firm to give professional advice with a view to establishing a set of scientific evaluation systems and perfecting relevant incentive systems.

After having obtained the preliminary approval by China Securities Regulatory Commission, the Company is expected to complete the issue of a maximum of 180,000,000 Renminbi-denominated ordinary shares (A Shares) and the listing of such A Shares on the Shanghai Stock Exchange within the second half of this year.

## **FINANCIAL REVIEW**

### **Operation Results**

As at 30 June, 2001, the financial position of the Group remained sound, and its business grew continuously and steadily.

<b>For the six months ended 30 June</b>		
<b>2001</b>	<b>2000</b>	<b>Change</b>
<b>RMB'000</b>	<b>RMB'000</b>	<b>(%)</b>

Turnover	<b>219,700</b>	208,585	5.33
Other revenue	<b>38,838</b>	15,746	146.65
Total operation costs	<b>64,541</b>	59,065	9.27
Operating profits	<b>193,997</b>	165,266	17.38
Share of results before taxation of jointly controlled Entities	<b>29,646</b>	29,503	0.48
Finance costs	<b>18,483</b>	20,512	-9.89
Profit attributable to Shareholders	<b>203,596</b>	173,107	17.61

## 1. Turnover

	<b>For the six months ended 30 June</b>		
	<b>2001</b>	2000	Change
	<b>RMB'000</b>	RMB'000	(%)
Income from toll roads	<b>231,754</b>	215,147	7.72
Less: business tax and surcharge	<b>12,054</b>	6,562	83.69
Turnover	<b>219,700</b>	208,585	5.33

Turnover comprises turnovers from wholly-owned toll roads, namely National Highway 107 (Shenzhen Section), National Highway 205 (Shenzhen Section), Jihe Expressway (Western Section), Yanba Expressway (Section A) and the 95% owned Meiguan Expressway.

The Group recorded relatively great change in turnover as compared with the same period of 2000, mainly because the business tax of RMB4,630,000 for the fourth quarter of 1999 was refunded in the first half of 2000, though business tax refund treatment was terminated with effect from 2000. Turnover for the Period grew by 10.16% after excluding incompatible factors such as the business tax refund and that the unified charge fee (統繳費) for two national highways were collected in the first quarter of 2000.

## 2. Other revenue

<b>Items</b>	<b>For the six months ended 30 June</b>		
	<b>2001</b>	2000	Change
	<b>RMB'000</b>	RMB'000	(%)
Gains from project			



management	(a)	<b>13,500</b>	-	
	N/A			
Gains from investment				
on bonds	(b)	<b>10,624</b>	1,948	445.38
Net interest income from				
a long-term loan	(c)	<b>9,607</b>	9,660	-0.55
Other income		<b>5,107</b>	4,138	23.42
Total		<b>38,838</b>	15,746	146.65

(a) The Company manages the linkage project linking Shenzhen Eastern Highway and Yanba Expressway, which is developed and owned by Shenzhen Municipal Government. Realised gains from management of the project amounted to RMB13.5 million (excluding related business taxes), which increases the Group's profit for the Period.

(b) Gains from investments on government bonds and other bonds for the Period totaled RMB10,624,000 with an increase of RMB8,676,000 over the same period of 2000. During the Period, RMB3,489,000 from the gains from investments on bonds was realised, while the remaining RMB7,135,000 was unrealised.

(c) Net interest income from a long-term loan represents the interest charged at a yearly rate of 6.21% by the Company on the long-term loan of RMB306,000,000 advanced to Changsha Ring Road Construction and Development Co., Ltd., the joint venture partner of Changsha Shenchang Expressway Company Limited ("Shenchang"). The interest receivable has been fully received, which makes up for the relatively low return from early operation of Shenchang. The loan will be treated as advance made by the Company to Shenchang when due in 2007.

### 3. Finance costs

During the Period, finance costs was down by 9.89% as compared to the corresponding period of 2000, mainly due to the reduction of loan interest rates. The Company was granted with the preferential loan interest rates of 10% lower than the prime rates of banks.

### Financial Position

## 1. Liquidity

30 June,	At 30 June, 2001	At 2000
Proportion of cash and cash equivalents to current assets	97.45%	94.30%
Proportion of cash and cash equivalents to current liabilities	1.14	2.15
Current ratio	1.17	2.28
Quick ratio	1.16	2.26

Current assets mainly comprise cash and cash equivalents, with good liquidity. The current ratio and the quick ratio comfortably stand at 1.17 and 1.16 respectively. The repayment ability of the Company remains strong.

## 2. Financial resources

Financial resources of the Group include bank loans, share capital, retained earnings and government assistance.

As at 30 June, 2001, the Group's borrowing amounted to RMB890 million. A short-term loan of RMB150 million was repaid and an aggregate of RMB50 million long-term loan was repaid before due. During the Period, the Group's short-term loans and long-term loans were increased by RMB240 million and RMB100 million, respectively. The Group's borrowings are mainly used to finance project constructions.

As at 30 June, 2001, the Group was granted with an aggregate of RMB2.15 billion banking facilities, of which RMB1.9 billion is secured while the rest RMB250 million is unsecured. The Group has utilized altogether RMB890 million banking facilities, with the remaining RMB1.26 billion banking facilities for standby purpose.

To ensure a reasonable return for the Company's investments in Yanba Expressway, Shenzhen Municipal Government has agreed to provide financial assistance of RMB300 million in total to the Company for the construction of Yanba Expressway (Section A), out of which RMB290 million has been received by the Company and the other RMB10 million will be available in the second half of 2001. Shenzhen Municipal Government has also agreed to provide financial assistance of RMB150 million for the

construction of Yanba Expressway (Section B) which is expected to commence construction in the second half of 2001.

The Company had a total capital commitment of RMB1.139 billion for the construction of Yanba Expressway, which will be funded through the proceeds of RMB900 million from the proposed A Share issue and the financial assistance of RMB150 million from Shenzhen Municipal Government as mentioned above.

### 3. Capital structure

The capital structure of the Group classified in respect of liquidity is set out below:

	At 30 June, 2001		At 31 December, 2000	
	Amount (RMB'000)	Percentage (%)	Amount (RMB'000)	Percentage (%)
Current liabilities	587,110	9.75	225,123	3.96
Long-term liabilities	858,000	14.25	888,000	15.61
Shareholders' funds	4,541,524	75.42	4,539,498	79.81
Minority interests	34,799	0.58	35,202	0.62
Total	6,021,433	100	5,687,823	100

In respect of capital structure, the Company's sound capital structure is in conformity with the specific feature of toll road sector, i.e., great investments with a long period of recovery.

The capital structure of the Group classified in respect of capital costs is as follows:

	At 30 June, 2001		At 31 December, 2000	
	Amount RMB'000	Percentage (%)	Amount RMB'000	Percentage (%)
Shareholders' funds	4,541,524	75.42	4,539,498	79.81
Floating rate liabilities	890,000	14.78	750,000	13.19
Interest-free liabilities	555,110	9.22	363,123	6.38
Minority interests	34,799	0.58	35,202	0.62

Total	6,021,433	100	5,687,823	100
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All the floating liabilities are Renminbi bank loans, with the current yearly interest rate of 5.022%~6.03%. Interest-free liabilities are mainly advances from the PRC government and other receivables. The short term interest-free liabilities of the Group are mainly funds for road maintenance and project construction, which will be repaid in due.

#### 4. Funding and treasury policies

The Company has introduced strict risk management over standby capital. It increases gains and lowers finance costs by way of investing the standby capital in low-risk government bonds and other bonds.

Net cash inflow from operating activities was increased by RMB157 million, as compared with the corresponding period in 2000. The increase was primarily attributable to the steadily increasing cash inflow from toll road operation and the interest free advances of RMB112 million from the PRC government for the construction of the linkage project managed by the Company.

During the Period, the Group has cash and cash equivalents of RMB668 million, among them: Deposits denominated in Hong Kong dollars amounted to HK\$113 million, of which HK\$105 million is kept in fixed deposits, with the interest rates varying according to their deposit terms between 3.533% to 4.125%. The capitalisation of short-term investments in bonds amounted to RMB407 million, of which RMB240 million is invested in government bonds managed through creditable and qualified brokerages in the PRC. Once the capital is needed, it can be drawn and realised completely when due. The rest cash and cash equivalents are all deposits denominated in Renminbi.

#### 5. Gearing ratio

	At 30 June,	At
31 December,	2001	2000
Gearing ratio	<b>32.59%</b>	25.30%

Gearing ratio of the Company is calculated by the following formula: total assets for the Period/shareholders' funds for the Period. With its strong capital base, relatively low debt ratio, steady gearing ratio and relatively low financial risks, the Group has ample capability for financial expansions. The financial strength of the Group will be further enhanced upon the completion of the issue of A shares which will raise RMB900 million. As the Company's investments expand, the banking borrowings will also increase accordingly. The Group will make full use of financial leverages after taking into consideration the returns on investment, financial flexibility, and financial risks, so as to achieve maximum returns for its shareholders.

### **Foreign Exchange Rate Risk Management**

The Company's foreign currency are mainly Hong Kong dollars ("HK\$"). As at 30 June, 2001, the Group has an aggregate of HK\$113 million kept in bank deposits, mainly from toll revenue from toll roads. The Hong Kong dollars are utilized to pay dividends of its H Shares. In the first half of 2001, the exchange rate for converting HK\$ to RMB remains relatively stable, ranging from 1:1.0606 to 1:1.0638. That does not have any significant impact on the Group's interim results.

### **Project Management**

The Company is responsible for the development, construction and maintenance of toll roads. The Company selects contractors through tendering system, so as to ensure the effective control of project costs. Currently, the Company is settling the construction costs for Yanba Expressway (Section A) and the tendering of Yanba Expressway (Section B) to select suitable contractors for the construction of Yanba Expressway.

The Company is considering the possibility of establishing a project management consultant company with a view to expanding into this area, so as to capitalise the Group's expertise in project management. It is expected that the project management business, if materialises, will become a new source of the Company's profit.

### **MATERIAL LITIGATION AND ARBITRATION**

During the Period, the Company had no material litigation or arbitration.

### **ACQUISITION, MERGER AND ASSET RESTRUCTURING**

During the Period, the Company had no acquisitions, mergers or assets restructuring.

## **MATERIAL CONNECTED TRANSACTIONS**

During the Period, the Company had not entered into any material connected transactions.

## **EMPLOYEES AND THEIR SALARIES**

As at 30 June, 2001, the Group has 1,050 employees, eighty-five out of which work at the headquarters of the Company.

The Company's Share Appreciation Right Scheme implemented was approved at the 2000 Annual General Meeting and was carried out. The total number of rights available under the Share Appreciation Right Scheme is 60,471,000 units. During the Period, the first batch of rights totaling 38,832,500 units were granted to 42 medium and senior management staff of the Company. Two directors were granted 3~4 million units, while the remaining nine directors were granted not more than 2 million units each.

## **TRAINING**

During the Period, the Company started a training program of MBA core courses for the medium and senior management staff. In addition, training programs aiming at staff from different departments and at all levels will continue in the second half of 2001.

## **CHARGES ON THE GROUP'S ASSETS AND GUARANTEES**

To obtain bank loans and banking facilities, the Company has secured the following assets to banks:

<b>Secured assets</b>	<b>Expiry date</b>
Operating rights of National Highway 107 (Shenzhen Section)	9 February, 2004
Operating rights of National Highway 205 (Shenzhen Section)	16 February, 2004
Operating rights of Meiguan Expressway	Terminated on 16 July, 2001

The Company has also issued a corporate guarantee to secure the banking loan of RMB25 million granted to its jointly controlled entity, Shenzhen Wutongling Ropeway Company Limited, which will expire on 16 December, 2003.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

During the Period, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules").

## **DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES AND RIGHTS TO ACQUIRE SECURITIES**

During the Period, none of the directors, supervisors, chief executives or their associates have any beneficial interests in the share capital of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance and to be recorded in the register required to be maintained pursuant to the Model Code for Securities Transaction by Directors of Listed Companies of Listing Rules.

At no time during the Period was the Company, its subsidiaries and its jointly controlled entities a party to any arrangements to enable the directors, supervisors, chief executives or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company has been granted by the Company to, nor have any such rights been exercised by, any person during the Period ended 30 June, 2001 and up to the date of this report.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the Period, no shares of the Company were purchased, sold or redeemed by the Company, any of its subsidiaries or any of its jointly controlled entities.

## **AUDIT COMMITTEE**

The Audit Committee of the Company has reviewed the unaudited interim financial statements for the six months ended 30 June, 2001 and has discussed the Group's internal controls and financial reporting procedures with the directors.

By Order of the Board  
**Chen Chao**  
Chairman

Shenzhen, the PRC, 24 August, 2001

*A detailed interim results announcement containing all the information required by paragraph 46(1) to 46(6) of Appendix 16 to the Listing Rules will be subsequently published on The Stock Exchange of Hong Kong Limited's website at <http://www.hkex.com.hk> in due course.*

Please also refer to the published version of this announcement in the i-Mail.