

Interim Report 1997

The Board of Directors of Jiangsu Expressway Company Limited (the "Company") announces the unaudited operating results for the six months ended 30 June 1997 to be as follows:

1. Profit and Loss Account

	Notes	Six months ended 30 June 1997 (unaudited) RMB'000
Turnover	2	284,308
Operating profit		61,899
Share of profit of an associated company	3	3,050
Profit before taxation		64,949
Taxation	4	—
Profit after taxation	5	64,949
Earnings per share	6	RMB 0.018

Notes:

1. The Company was incorporated as a joint stock company with limited liability in the People's Republic of China (the "PRC") on 1 August 1992. The principal business of the Company is the construction, operation and management of the Jiangsu section of the Shanghai-Nanjing Expressway and other relevant expressways and highways in the Jiangsu Province. The Company also engages in the provision and development of passenger transportation and other ancillary services along the expressways and highways including fuelling stations, restaurants, car maintenance and repair and advertising. The construction of the Shanghai-Nanjing Expressway commenced on 14 June 1992 and was completed and put into operation on 15 September 1996. On 27 June 1997, the H Shares of the Company were listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The Company acquired the operating rights of the Nanjing-Shanghai Class 2 Highway from the Highways Bureau of the Jiangsu Province on the date on which the H Shares were listed on the Stock Exchange for a term of 15 years. The acquisition price amounted to RMB1,345,786,000. Accordingly, the income and expenditure arising from operating the Nanjing-Shanghai Class 2 Highway from 27 June 1997 to 30 June 1997 were included in the unaudited operating results for the six months ended 30 June 1997.

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For the six months ended 30 June 1996, the Nanjing-Shanghai Expressway was still under construction. Accordingly, no comparative figures for the corresponding period are included in this report.

The unaudited profit and loss account for the six months ended 30 June 1997 is prepared in accordance with the International Accounting Standards.

2. Turnover mainly represents income from operating toll expressways and highways, net of revenue tax. Turnover also includes other miscellaneous income such as income from sale of petrol, advertising and emergency assistance.
3. The Company holds a 40% equity interest in Jiangsu Nanjing-Shanghai Express Bus Co. Ltd. ("Express Bus Co."). Express Bus Co. was incorporated in the PRC and is principally engaged in the provision of passenger transport services along the Shanghai-Nanjing Expressway. It commenced operations on 15 September 1996.
4. Enterprises generally have to comply with the PRC laws and regulations and are subject to payment of the PRC income tax (the "income tax") at the rate of 33% of the assessable income. Pursuant to the notice (Su Cai Gong (1997) No.48) issued by the Finance Department of the Jiangsu Province, the Company is entitled to a tax refund from the Finance Department of the Jiangsu Province in respect of the income tax paid to the Local Taxation Bureau of the Jiangsu Province. The amount to be refunded will be equal to 18% of the assessable income of the Company. However, the notice does not specify the expiry date. Accordingly, the effective income tax rate applicable to the Company since the date of its incorporation is 15%.

In addition, pursuant to the notice (Su Di Shui Zhi Fa (1997) No.003) issued by the Local Taxation Bureau of the Jiangsu Province on 22 May 1997, the Company is fully exempted from income tax for the 1997 financial year.

As the Company has not generated any assessable profits in Hong Kong, the Company is not subject to Hong Kong profits tax.
5. For the six months ended 30 June 1997, the Company has not made any appropriation to the statutory surplus reserve fund and the statutory public welfare fund. The Company will make such appropriation in accordance with the prevailing regulations at the end of the year.
6. The calculation of the earnings per share for the six months ended 30 June 1997 is based on the profit after taxation of RMB 64,949,000 for the period and the weighted average in issue of 3,692,753,025 shares for the six months ended 30 June 1997. The calculation is based on the assumption that 3,665,747,500 A shares were in issue on 1 January 1997 and 1,222,000,000 H Shares were in issue on 27 June 1997.

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7. Reconciliation of the profit for the six months ended 30 June 1997 reported in accordance with the PRC Accounting Standards and the International Accounting Standards is as follows:

	<i>RMB'000</i>
Profit reported in accordance with PRC Accounting Standards	53,224
Add: Write-back of depreciation on fixed assets carried at valuation (<i>Note</i>)	11,725
Profit reported in accordance with the International Accounting Standards	64,949

Notes: The depreciation adjustment arises from the adoption of different basis when calculating depreciation. When calculating the profit reported in accordance with the PRC Accounting Standards, the calculation of depreciation of fixed assets is based on revaluation amount. When calculating the profit reported in accordance with the International Accounting Standards, the calculation of depreciation is based on historical cost.

2. Interim dividend

The Board of Directors has resolved not to declare interim dividend for the period. Pursuant to the resolution passed at the general meeting of the Company held on 2 April 1997, it was resolved that the undistributed profit of the Company (calculated in accordance with the PRC accounting principles and financial regulations) up to 31 March 1997 of approximately RMB365,000 (unaudited) will be distributed in 1998 to the then holders of A Shares by way of special interim dividend. The special interim dividend will not be paid to the holders of H Shares.

3. Business review

With the approval of the Securities Committee of the State Council, the Company issued H Shares in Hong Kong in June 1997 which were subsequently listed on the Stock Exchange on 27 June 1997. Upon listing, apart from the Jiangsu section of the Shanghai-Nanjing Expressway, the assets of the Company also include the fifteen-year operating rights of the Nanjing-Shanghai Class 2 Highway acquired

with the funds raised from the issue of H Shares and the 85% shareholding in Guangjing Expressway and Xicheng Expressway which are still under construction.

Jiangsu section of the Shanghai-Nanjing Expressway

Since the full operation of the Jiangsu section of the Shanghai-Nanjing Expressway in September 1996, it had been confronted with rainy seasons and increasing traffic flow. Yet, the expressway remains in excellent condition, reflecting on the quality of the works and roads. The occurrence of road accidents shows a significant decline as the peak for expressway accidents is over. The expressway experiences smooth and orderly traffic flow. The toll system is in sound operation. The quality of service and management received commendation from the road users.

Since the full operation of the expressway on 15 September 1996, the traffic flow has been increasing. The daily distance-weighted average traffic flow amounted to 11,546 vehicles during the first half of the year, reaching the planned target for the first half of the year. It also represents an increase of 15.4% as compared to the daily distance-weighted average traffic flow for the three and a half months from the commencement of operation on 15 September last year.

During the first half of the year, the toll revenue from the Shanghai-Nanjing Expressway amounted to approximately RMB245,240,000, representing an average daily revenue of approximately RMB1,355,000. It also represents a growth of 37% as compared to the daily revenue for the three and a half months from the commencement of operation on 15 September last year. With the approval of the relevant department of the provincial government, the tolls on the Jiangsu section of the Shanghai-Nanjing Expressway was adjusted by the Company. At the same time, the toll station of the expressway linking Nanjing and the connecting routes has been removed thereby increasing the

traffic flow of the Shanghai-Nanjing Expressway. The daily average toll revenue from 1 January to 4 April 1997 amounted to RMB1,116,900, whereas the daily average toll revenue from 5 April to 30 June amounted to RMB1,612,000, representing an increase of 44.3% as compared to that prior to price adjustment.

Jiangsu section of the Nanjing-Shanghai Class 2 Highway

In addition to the existing four toll stations along the Jiangsu section of the Nanjing-Shanghai Class 2 Highway, the Nanjing toll station and the Suzhou toll station were established on 25 April and 30 May 1997 respectively, both of which have begun to collect tolls. The total tolls received by the Jiangsu section of the Nanjing-Shanghai Class 2 Highway during the first half of the year amounted to RMB113,999,000, representing an increase of 27.53% from the toll revenue of RMB89,390,000 during the corresponding period last year.

The Company completed the acquisition of the fifteen-year operating rights of the Jiangsu section of the Nanjing-Shanghai Class 2 Highway on 27 June 1997. The Company has entered into an operation and maintenance agreement with the Highways Bureau of the Jiangsu Province in respect of the Jiangsu section of the Nanjing-Shanghai Class 2 Highway. The Highways Bureau of the Jiangsu Province will be responsible for the operation, maintenance and toll collection of the highway for fifteen years from 27 June 1997.

Guangjing Expressway and Xicheng Expressway

The establishment of 廣靖高速公路有限責任公司 (the company for the North Approach Expressway of the Jiangyin Yangtze Bridge) and 錫澄高速公路有限責任公司 (the company for the South Approach Expressway of the Jiangyin Jangtze Bridge) is still in progress. The drafting of the relevant Articles of

Association and Shareholders' Agreement has already been completed. The Directors believe that the establishment of these two companies can be completed within 60 working days after the date of listing of the H Shares.

The construction of Guangjing Expressway and Xicheng Expressway are in smooth progress. The preparation works have been completed during the first half of the year. In respect of the above two expressways, 52.39% and 44.99% of the road foundation works have been completed respectively. Other construction works are still in progress. It is expected that 70% of the foundation works will be completed by the end of the year. The construction of medium and small bridges, passages and tunnels have been completed and the road works will soon commence.

4. Prospect

(a) **Traffic flow**

In view of the fact that the Shanghai-Nanjing Expressway was formally put into operation only late last year and on the basis of the present traffic growth trend, the Board of Directors is confident of the increase in the traffic flow during the second half of the year.

(b) **Toll revenue**

It is estimated that there will be a higher increase in toll revenue from the Shanghai-Nanjing Expressway and the Nanjing-Shanghai Class 2 Highway of the Company during the second half of the year as compared to that of the first half of the year due to the following reasons: the toll adjustment to the Shanghai-Nanjing Expressway on 5 April, the establishment of two additional toll stations at the Jiangsu section of the Nanjing-Shanghai Class 2 Highway during late April and late May, the increase in traffic flow

during the second half of the year as well as the change in structure of traffic flow due to price adjustment. In addition, all the income and expenditure arising from the Nanjing-Shanghai Class 2 Highway during the second half of the year will be accounted for in the financial statement of the Company.

(c) **Expansion of non-core business**

As the non-core business of the Company such as petrol stations and advertising shows good performance, the Company will seek to expand its non-core business operations along the Shanghai-Nanjing Expressway.

(d) **Use of proceeds to maximize economic efficiency**

As disclosed in the prospectus, the proceeds of the H Share Issue have been used to acquire the fifteen-year operating rights of the Nanjing-Shanghai Class 2 Highway; will be used to invest in and construct the South Approach Expressway and North Approach Expressway and to acquire 85% interest in each of the expressway companies; to construct and establish the monitoring, communication and toll collection systems of the Shanghai-Nanjing Expressway; to repay loans and use as general working capital. The proceeds will be applied by the Company in such manner as disclosed in the prospectus. The Company will reduce its interest expenditure through early repayment of loans of higher interest rate.

In view of the above factors, the profitability of the Company for the second half of the year will be better than that for the first half of the year. The Board of Directors has confidence in achieving the profit forecast of RMB271,000,000.

The Company intends to acquire an interest in the Jiangyin Yangtze Bridge. After preliminary discussion, Jiangsu Yangtze

Bridge Company Limited, the project company, has indicated its interest to co-operate with the Company. However, the acquisition is still at a preliminary stage and is not expected to be completed in 1997. The terms, timing and financing arrangement of the acquisition have not yet been determined. Further announcement regarding the acquisition will be made by the Company as and when appropriate.

5. Disclosure of material matters

(a) Change in the structure of the share capital:

Due to the issue of 1,222,000,000 H Shares in June this year and the listing on the Stock Exchange on 27 June 1997, the structure of the share capital of the Company as at 30 June 1997 is as follows:

Class of share capital	Number of Shares	Percentage (%)
State shares	3,376,134,600	69.07
Legal person shares	289,612,900	5.93
H Shares	1,222,000,000	25.00
Total	4,887,747,500	100.00

(b) The shareholding of the substantial shareholders:

As at 30 June 1997, the shareholders holding more than 10% of the issued equity interests of the Company are as follows:

Company Name	Number of Shares	Percentage	
		A Shares (%)	H Shares (%)
江蘇交通投資公司	3,376,134,600	92.1	—
Real Cheer Ltd.	152,463,500	—	12.5

(c) **The shareholding of the directors and supervisors:**

As at 30 June 1997, no directors, supervisors, chief executives and their respective associates have any interest in the registered share capital of the Company and its associated companies which have to be recorded in the register pursuant to the provisions of Section 29 of the Securities (Disclosure of Interests) Ordinance.

During the period, the Company and its associated companies have not made any arrangement which enables the directors, supervisors, chief executives and their respective associates to acquire interests through the subscription of the share capital or debentures of the Company or its associated companies.

(d) **Purchases, sales and redemption of the Company's shares**

Apart from the H Share Offer described in the prospectus issued by the Company on 27 June, 1997, the Company has not purchased, sold or redeemed any shares of the Company during the period.

(e) **Litigation of material importance**

During the period, the Company has not engaged in any litigation or arbitration of material importance.

6. Code of Best Practice

During the period from 27 June 1997, the date on which the H Shares of the Company were listed on the Stock Exchange, to 30 June 1997, the Company has complied with the Code of Best Practice as set

out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

7. Documents available for inspection

1. The original copy of the interim report, signed by the chairman of the Board of Directors;
2. Address: Securities Department of the Company at 238, Maqun Street, Maqun, Nanjing, the PRC

By Order of the Board

Xu Hua Qiang

Chairman

Nanjing, the PRC, 22 August 1997