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浙江滬杭甬高速公路股份有限公司

ZHEJIANG EXPRESSWAY CO., LTD.

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

(Stock code: 0576)

2020 INTERIM RESULTS ANNOUNCEMENT

The directors (the “Directors”) of Zhejiang Expressway Co., Ltd. (the “Company”) announced the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended June 30, 2020 (the “Period”), with the basis of preparation as stated in note 1 set out below.

During the Period, revenue for the Group was Rmb3,947.84 million, representing a year-on-year decrease of 31.0%. Profit attributable to owners of the Company was Rmb687.10 million, representing a year-on-year decrease of 65.3%. Basic earnings per share for the Period was Rmb15.82 cents, representing a year-on-year decrease of 65.3%. Diluted earnings per share for the Period was Rmb15.82 cents, representing a year-on-year decrease of 64.4%.

The Directors do not recommend the payment of an interim dividend for 2020.

The condensed consolidated financial statements of the Group for the six months ended June 30, 2020 have not been audited or reviewed by the auditors of the Company, but have been reviewed by the audit committee of the Company. Set out below are the unaudited condensed consolidated statement of profit or loss and other comprehensive income for the Period and condensed consolidated statement of financial position as at June 30, 2020, with comparative figures for the corresponding period in 2019 and relevant notes to the condensed consolidated financial statements:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

		For the six months ended June 30,	
		2020	2019
	<i>Notes</i>	Rmb'000	<i>Rmb'000</i>
		(Unaudited)	(Unaudited)
Revenue	3	3,947,835	5,722,101
Including: Interest under effective interest method		796,849	787,455
Operating costs		(3,355,989)	(2,925,250)
Gross profit		591,846	2,796,851
Securities investment gains		1,100,834	658,810
Other income and gains and losses	4	335,772	103,789
Administrative expenses		(42,471)	(46,732)
Other expenses		(63,219)	(39,656)
Impairment losses under expected credit loss model, net of reversal		(53,077)	(2,688)
Share of profit of associates		349,874	327,447
Share of (loss) profit of a joint venture		(25,289)	12,189
Finance costs		(968,246)	(767,975)
Profit before tax		1,226,024	3,042,035
Income tax expense	5	(279,222)	(692,971)
Profit for the Period		946,802	2,349,064
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of foreign operations		633	165
Other comprehensive income for the Period, net of income tax		633	165
Total comprehensive income for the Period		947,435	2,349,229
Profit for the Period attributable to:			
Owners of the Company		687,097	1,977,610
Non-controlling interests		259,705	371,454
		946,802	2,349,064

		For the six months ended June 30,	
		2020	2019
		<i>Rmb'000</i>	<i>Rmb'000</i>
<i>Notes</i>		(Unaudited)	(Unaudited)
Total comprehensive income attributable to:			
	Owners of the Company	687,394	1,977,688
	Non-controlling interests	260,041	371,541
		947,435	2,349,229
Earnings per share			
	Basic (Rmb cents)	15.82	45.53
	Diluted (Rmb cents)	15.82	44.47

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at June 30, 2020	As at December 31, 2019
<i>Notes</i>	<i>Rmb'000</i> (Unaudited)	<i>Rmb'000</i> (Audited)
NON-CURRENT ASSETS		
Property, plant and equipment	4,179,956	4,280,735
Right-of-use assets	336,338	379,031
Expressway operating rights	21,909,463	22,867,446
Goodwill	86,867	86,867
Other intangible assets	188,744	182,851
Interests in associates	6,187,957	6,080,155
Interest in a joint venture	342,754	368,043
Financial assets at fair value through profit or loss ("FVTPL")	16,898	16,898
Contract assets	679,944	686,557
Deferred tax assets	1,046,369	924,602
	34,975,290	35,873,185
CURRENT ASSETS		
Inventories	351,763	333,261
Trade receivables	349,363	319,339
Loans to customers arising from margin financing business	11,132,775	8,751,643
Other receivables and prepayments	1,061,249	424,182
Dividends receivable	–	2,005
Derivative financial assets	37,847	6,250
Financial assets at FVTPL	30,872,150	22,235,480
Financial assets held under resale agreements	5,201,521	8,110,354
Bank balances and clearing settlement fund held on behalf of customers	24,499,058	20,141,931
Bank balances, clearing settlement fund, deposits and cash		
– Time deposits with original maturity over three months	1,100,000	302,726
– Cash and cash equivalents	6,312,007	8,076,598
	80,917,733	68,703,769

		As at June 30, 2020 Rmb'000 (Unaudited)	As at December 31, 2019 Rmb'000 (Audited)
CURRENT LIABILITIES			
Placements from other financial institutions		–	270,000
Accounts payable to customers arising from securities business		24,296,554	20,024,356
Trade payables	8	1,184,906	1,387,856
Tax liabilities		424,549	537,868
Other taxes payable		126,085	149,735
Other payables and accruals		3,429,858	2,049,479
Contract liabilities		100,931	15,674
Dividends payable		109,639	1,342
Derivative financial liabilities		25,289	5,565
Bank and other borrowings		4,833,539	4,598,533
Short-term financing note payable		6,222,126	6,532,990
Bonds payable		398,445	2,281,229
Convertible bonds	9	5,094	2,793,103
Financial assets sold under repurchase agreements		16,142,138	9,017,680
Financial liabilities at FVTPL		522,396	321,883
Lease liabilities		77,079	70,577
		57,898,628	50,057,870
NET CURRENT ASSETS		23,019,105	18,645,899
TOTAL ASSETS LESS CURRENT LIABILITIES		57,994,395	54,519,084
NON-CURRENT LIABILITIES			
Bank and other borrowings		8,398,600	6,421,600
Bonds payable		14,801,814	12,892,042
Convertible bonds	9	3,025,358	2,687,228
Deferred tax liabilities		393,854	347,331
Lease liabilities		156,461	188,772
		26,776,087	22,536,973
		31,218,308	31,982,111
CAPITAL AND RESERVES			
Share capital		4,343,115	4,343,115
Reserves		16,396,493	17,250,900
Equity attributable to owners of the Company		20,739,608	21,594,015
Non-controlling interests		10,478,700	10,388,096
		31,218,308	31,982,111

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair value.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended June 30, 2020 are the same as those presented in the Group’s annual financial statements for the year ended December 31, 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after January 1, 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

For the six months ended June 30, 2020 (Unaudited)

	Toll road operation <i>Rmb'000</i>	Securities operation <i>Rmb'000</i>	Others <i>Rmb'000</i>	Total <i>Rmb'000</i>
Revenue – external customers	<u>1,773,446</u>	<u>2,091,908</u>	<u>82,481</u>	<u>3,947,835</u>
Segment (loss) profit	<u>(55,625)</u>	<u>660,437</u>	<u>341,990</u>	<u>946,802</u>

For the six months ended June 30, 2019 (Unaudited)

	Toll road operation <i>Rmb'000</i>	Securities operation <i>Rmb'000</i>	Others <i>Rmb'000</i>	Total <i>Rmb'000</i>
Revenue – external customers	<u>3,882,344</u>	<u>1,641,220</u>	<u>198,537</u>	<u>5,722,101</u>
Segment profit	<u>1,530,730</u>	<u>479,682</u>	<u>338,652</u>	<u>2,349,064</u>

Segment profit represents the profit after tax of each operating segment. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Revenue from major services

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

	For the six months ended June 30,	
	2020	2019
	<i>Rmb'000</i>	<i>Rmb'000</i>
	(Unaudited)	(Unaudited)
Toll road operation revenue	1,773,446	3,882,344
Commission and fee income from securities operation	1,295,059	853,765
Interest income from securities operation	796,849	787,455
Hotel and catering revenue	41,559	80,085
Construction revenue	40,922	118,452
Total	<u>3,947,835</u>	<u>5,722,101</u>

4. OTHER INCOME AND GAINS AND LOSSES

	For the six months ended June 30,	
	2020	2019
	<i>Rmb'000</i>	<i>Rmb'000</i>
	(Unaudited)	(Unaudited)
Interest income on bank balances	18,749	15,636
Rental income	24,521	33,965
Towing income	2,441	3,043
Gain (loss) on change in fair value in respect of the derivative component of Convertible Bond 2017	12	(21,002)
Reversal in fair value in respect of the derivative component of Convertible Bond 2017 due to redemption	200,165	—
Exchange (loss) gain, net	(58,964)	11,853
(Loss) gain on commodity trading, net	(58,450)	7,887
Management fee income	17,136	15,338
Government subsidies from removal of expressway toll station on provincial borders	119,641	—
Others	70,521	37,069
Total	<u>335,772</u>	<u>103,789</u>

5. INCOME TAX EXPENSE

	For the six months ended June 30,	
	2020	2019
	<i>Rmb'000</i>	<i>Rmb'000</i>
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax (“EIT”)	354,466	812,856
Deferred tax	(75,244)	(119,885)
	<u>279,222</u>	<u>692,971</u>

Under the Law of the PRC on EIT and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

No Hong Kong Profits Tax has been provided as the Group has no estimated assessable profit in Hong Kong during the Period.

6. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	For the six months ended June 30,	
	2020	2019
	<i>Rmb'000</i>	<i>Rmb'000</i>
	(Unaudited)	(Unaudited)
Profit for the Period attributable to owners of the Company	687,097	1,977,610
Earnings for the purpose of basic earnings per share	687,097	1,977,610
Effect of dilutive potential ordinary shares arising from Convertible Bond 2017	25,262	66,730
Earnings for the purpose of diluted earnings per share	712,359	2,044,340

Number of shares

	For the six months ended June 30,	
	2020	2019
	<i>'000</i>	<i>'000</i>
	(Unaudited)	(Unaudited)
Number of ordinary shares for the purpose of basic earnings per share	4,343,115	4,343,115
Effect of dilutive potential ordinary shares arising from Convertible Bond 2017	58,668	253,866
Weighted average number of ordinary shares for the purpose of diluted earnings per share	4,401,783	4,596,981

For the six months ended June 30, 2020, the computation of diluted earnings per share does not assume the conversion of outstanding convertible bonds issued by the Company and Zheshang Securities Co., Ltd. ("Zheshang Securities"), since their exercise would result in an increase in earnings per share.

7. TRADE RECEIVABLES

	As at June 30, 2020 <i>Rmb'000</i> (Unaudited)	As at December 31, 2019 <i>Rmb'000</i> (Audited)
Trade receivables:		
– contracts with customers	353,767	323,767
Less: Allowance for credit losses	(4,404)	(4,428)
	349,363	319,339
Trade receivables (before allowance for credit losses) comprise:		
Fellow subsidiaries	6,501	9,245
Third parties	347,266	314,522
Total trade receivables	353,767	323,767

The Group has no credit period granted to its trade customers of toll road operation business. The Group's trade receivable balance for toll road operation is toll receivables from the respect expressway fee settlement centre of Zhejiang Province and Anhui Province, Transportation Bureau of Yuhang County of Hangzhou, Transportation Bureau of Yiwu, Transportation Bureau of Linan of Hangzhou, Transportation Bureau of Huzhou, which are normally settled within 3 months. All of these trade receivables were not past due in both periods.

In respect of the Group's asset management service, security commission and financial advisory service operated by Zheshang Securities, trading limits are set for customers. The Group seeks to maintain tight control over its outstanding trade receivable in order to minimise credit risk. Overdue balances are regularly monitored by the management.

The following is an aged analysis of trade receivables net of allowance for credit losses presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	As at June 30, 2020 <i>Rmb'000</i> (Unaudited)	As at December 31, 2019 <i>Rmb'000</i> (Audited)
Within 3 months	295,446	291,295
3 months to 1 year	45,342	17,905
1 to 2 years	4,592	6,430
Over 2 years	3,983	3,709
Total	349,363	319,339

8. TRADE PAYABLES

Trade payables mainly represent the payables for the expressway improvement projects and construction of high grade road. The following is an aged analysis of trade payables presented based on the invoice date:

	As at June 30, 2020 Rmb'000 (Unaudited)	As at December 31, 2019 Rmb'000 (Audited)
Within 3 months	299,017	906,748
3 months to 1 year	474,037	83,490
1 to 2 years	89,562	81,291
2 to 3 years	77,208	31,842
Over 3 years	245,082	284,485
Total	<u>1,184,906</u>	<u>1,387,856</u>

9. CONVERTIBLE BONDS

Convertible Bond 2017

On April 21, 2017, the Company issued a zero coupon convertible bond due 2022 in an aggregate principal amount of Euro365,000,000 (the “Convertible Bond 2017”). The Convertible Bond 2017 is listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The principal terms of the Convertible Bond 2017 are set out below:

(1) Conversion right

The Convertible Bond 2017 will, at the option of the holder (the “Bondholders 2017”), be convertible (unless previously redeemed, converted or purchased and cancelled) on or after June 1, 2017 up to April 11, 2022 into fully paid ordinary shares with a par value of Rmb1.00 each at an initial conversion price (the “Conversion Price 2017”) of HK\$13.10 per H share and a fixed exchange rate of HK\$8.2964 to Euro1.00 (the “Fixed Exchange Rate”). The Conversion Price 2017 is subject to the anti-dilutive adjustments and certain events including mainly: share consolidation, subdivision or re-classification, capitalisation of profits or reserves, capital distributions, rights issues of shares or options over shares, rights issues of other securities and issues at less than current market price. As at June 30, 2020, the Conversion Price 2017 was HK\$10.54 per H share.

(2) Redemption

(i) Redemption at maturity

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Company will redeem each Convertible Bond 2017 at 100 percent of its outstanding principal amount on the maturity date of April 21, 2022 (the “Maturity Date 2017”).

(ii) Redemption at the option of the Company

The Company may, having given not less than 30 nor more than 60 days’ notice, redeem the Convertible Bond 2017 in whole and not some only at 100 percent of their outstanding principal amount as at the relevant redemption date:

- (a) at any time after April 21, 2020 but prior to the Maturity Date 2017, provided that no such redemption may be made unless the closing price of an H share translated into Euro at the prevailing rate applicable to each Stock Exchange business day, for any 20 Stock Exchange business days within a period of 30 consecutive Stock Exchange business days, the last of such Stock Exchange business day shall occur not more than 10 days prior to the date upon which notice of such redemption is given, was, for each such 20 Stock Exchange business days, at least 130 percent of the Conversion Price 2017 (translated into Euro at the Fixed Exchange Rate); or
- (b) if at any time the aggregate principal amount of the Convertible Bond 2017 outstanding is less than 10 percent of the aggregate principal amount originally issued.

(iii) Redemption at the option of the Bondholders 2017

The Company will, at the option of the Bondholders 2017, redeem whole or some of that holder’s bond on April 21, 2020 (the “Put Option Date”) at 100 percent of their outstanding principal amount on that date.

The Convertible Bond 2017 comprises two components:

- (a) Debt component was initially measured at fair value amounted to approximately Euro297,801,000 (equivalent to Rmb2,190,578,000). It is subsequently measured at amortised cost by applying effective interest rate method after considering the effect of the transaction costs. The effective interest rate used is 4.28%.
- (b) Derivative component comprises conversion right of the Bondholders 2017, redemption option of the Company, and redemption option of the Bondholders 2017.

Transaction costs totalling Rmb16,725,000 that relate to the issue of the Convertible Bond 2017 are allocated to the components (including conversion right and redemption options) in proportion to their respective fair values. Transaction costs amounting to approximately Euro419,000 (equivalent to Rmb3,079,000) relating to the derivative component were charged to profit or loss during the year ended December 31, 2017. Transaction costs amounting to approximately Euro1,855,000 (equivalent to Rmb13,646,000) relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the Convertible Bond 2017 using the effective interest method.

The derivative component was measured at fair value with reference to valuation carried out by a firm of independent professional valuers.

Pursuant to the terms and conditions of the Convertible Bond 2017, the Company would, at the option of the Bondholders 2017 redeem all or some of that Bondholders 2017's bonds on the Put Option Date (namely, April 21, 2020) at 100 per cent. of their outstanding principal amount on the Put Option Date. Notice of redemption has been served on the Company requiring the Company to redeem the relevant Convertible Bond 2017 (together with interest due on the Put Option Date), pursuant to the terms and conditions of the Convertible Bond 2017. On April 21, 2020, the Company redeemed majority of Convertible Bond 2017 for the total principal amount of Euro364,900,000 (together with interest due on the Put Option Date, which is nil) (the "Early Redemption"). No conversion of the Convertible Bond 2017 has occurred up to June 30, 2020. For details of the Early Redemption, please refer to the announcement of the Company dated May 6, 2020.

The movement of the debt and derivative components of the Convertible Bond 2017 for the Period ended June 30, 2020 and year ended December 31, 2019 is set out as below:

	Debt component at amortised cost		Derivative components at FVTPL		Total	
	<i>Euro'000</i>	<i>Rmb'000</i>	<i>Euro'000</i>	<i>Rmb'000</i>	<i>Euro'000</i>	<i>Rmb'000</i>
On January 1, 2019 (Audited)	317,553	2,491,934	27,746	217,729	345,299	2,709,663
Exchange realignment	-	(9,470)	-	-	-	(9,470)
Interest charge	13,591	105,589	-	-	13,591	105,589
Gain on change in fair value	-	-	(2,132)	(17,547)	(2,132)	(17,547)
On December 31, 2019 (Audited)	<u>331,144</u>	<u>2,588,053</u>	<u>25,614</u>	<u>200,182</u>	<u>356,758</u>	<u>2,788,235</u>
Redemption	(364,900)	(2,802,541)	(25,611)	(200,165)	(390,511)	(3,002,706)
Exchange realignment	-	(40,838)	-	-	-	(40,838)
Interest charge	33,849	256,067	-	-	33,849	256,067
Gain on change in fair value	-	-	(2)	(12)	(2)	(12)
On June 30, 2020 (Unaudited)	<u>93</u>	<u>741</u>	<u>1</u>	<u>5</u>	<u>94</u>	<u>746</u>

Convertible bond 2019

On March 12, 2019, Zheshang Securities, a subsidiary of the Company, issued a convertible bond due 2025 in an aggregate principal amount of Rmb3,500,000,000 (the “Convertible Bond 2019”). The Convertible Bond 2019 is listed and trading on Shanghai Stock Exchange. The coupon rate is 0.2% per annum for the first year, 0.5% per annum for the second year, 1.0% per annum for the third year, 1.5% per annum for the fourth year, 1.8% per annum for the fifth year, 2.0% per annum for the sixth year, and will be paid annually.

Out of the principal amount of Rmb3,500,000,000, Rmb875,000,000 was subscribed by Zhejiang Shangsang Expressway Co., Ltd. (“Shangsang Co”), another subsidiary of the Group.

The principal terms of the Convertible Bond 2019 are set out below:

(1) Conversion right

The Convertible Bond 2019 will, at the option of the holders (the “Bondholders 2019”), be convertible (unless previously redeemed, converted or purchased and cancelled) during the period from September 19, 2019 up to March 11, 2025, into fully paid ordinary shares of Zheshang Securities with a par value of Rmb1.00 each at an initial conversion price (the “Conversion Price 2019”) of Rmb12.53 per share. The Conversion Price 2019 will be adjusted when Zheshang Securities distributes stock dividends, capitalises common reserves into share capital, issues new shares or places new shares, distributes cash dividend (excluding the increase in share capital due to the conversion of the Convertible Bond 2019 issued). When the share price of Zheshang Securities is less than 80% of the Conversion Price 2019 for any 15 business days within a period of 30 consecutive business days prior to the maturity date of the Convertible Bond 2019 (the “Maturity Date 2019”), the board of directors of Zheshang Securities has the right to propose a downward revision resolution on the Conversion Price 2019, and submits it to the shareholder’s meeting of Zheshang Securities for approval. As at June 30, 2020, the Conversion Price 2019 was Rmb12.37 per share.

(2) Redemption

(i) Redemption at maturity

Zheshang Securities will redeem all outstanding Convertible Bond 2019 at 105 percent of its outstanding principal amount (including the last instalment of interest payment) within five business days from the Maturity Date 2019.

(ii) Redemption on conditions

During the conversion period of the Convertible Bond 2019, upon the occurrence of any of the following two conditions, Zheshang Securities is entitled to redeem all or part of the outstanding Convertible Bond 2019 based on the par value and interest in arrears;

- (a) During the conversion period of the Convertible Bond 2019, for any 15 business days within a period of 30 consecutive business days, the closing share price of Zheshang Securities is not less than 130 percent (including 130 percent) of the Conversion Price 2019;
- (b) When the aggregate principal amount of the outstanding Convertible Bond 2019 is less than Rmb30,000,000.

Convertible Bond 2019 contains a liability component and an equity component. At initial recognition, the equity component of the Convertible Bond 2019 was separated from the liability component. As the Convertible Bond 2019 was issued by a subsidiary of the Company and is convertible into that subsidiary's own shares, the equity element is considered as non-controlling interests. The effective interest rate of the liability component is 4.1431% per annum.

Changes in the liability and equity component of the Convertible Bond 2019 since the issuance of Convertible Bond 2019 to June 30, 2020 are set out as below:

	Liability component	Equity Component
	<i>Rmb'000</i>	<i>Rmb'000</i>
	<u> </u>	<u> </u>
Issuance on March 12, 2019	2,272,833	352,167
Issue cost	(10,408)	(1,613)
Interest charge	88,289	–
Addition	341,526	53,174
Conversion into shares	<u>(144)</u>	<u>(22)</u>
As at December 31, 2019 (Audited)	<u><u>2,692,096</u></u>	<u><u>403,706</u></u>
Interest paid	(6,669)	–
Interest charge	58,098	–
Addition (<i>Note i</i>)	286,192	44,169
Conversion into shares (<i>Note ii</i>)	<u>(11)</u>	<u>(2)</u>
As at June 30, 2020 (Unaudited)	<u><u>3,029,706</u></u>	<u><u>447,873</u></u>

Notes:

- (i) During the Period ended June 30, 2020, Shangsang Co disposed of the Convertible Bond 2019 held on hand with the principal amount of Rmb330,361,000 to certain independent third parties through the open market. Upon the disposal, this balance is no longer an intragroup assets and liabilities which were eliminated in full on consolidation, and is considered as an addition during the Period.
- (ii) During the Period ended June 30, 2020, the Bondholders 2019 converted part of the Convertible Bond 2019 with a principal amount of Rmb1,000 to the shares of Zheshang Securities.

As at June 30, 2020, Zheshang Securities had not exercised the redemption rights.

BUSINESS REVIEW

In the first half of 2020, the global economy experienced a downturn due to the novel coronavirus (“Covid-19”) epidemic. China’s GDP dropped 6.8% year-on-year in the first quarter. With the effective containment of the epidemic in China and the resumption of work, production, commercial and market activities, China’s economy gradually started to recover, which helped GDP rise by 3.2% year-on-year in the second quarter. As a result, China’s GDP dropped only 1.6% year-on-year for the first half of the year. During the Period, industrial output, service sector output, fixed asset investment and online retail sales in Zhejiang Province increased by 0.3%, 2.5%, 3.8% and 9.8% year-on-year, respectively, which drove a rapid rebound in the Province’s overall economy, with GDP rising 0.5% year-on-year.

During the Period, toll revenue of the Group’s expressways decreased significantly due to the Covid-19 epidemic and the toll-free policy during the epidemic. The securities business recorded a relatively high increase in revenue, benefiting from reforms in the domestic capital markets, and helped to effectively mitigate the decline in the toll road sector. During the Period, total revenue of the Group was Rmb3,947.84 million, representing a decrease of 31.0% year-on-year, of which Rmb1,773.45 million was generated by the seven major expressways operated by the Group, representing a decrease of 54.3% year-on-year and 44.9% of total revenue. Revenue generated by the securities business was Rmb2,091.91 million, representing an increase of 27.5% year-on-year and 53.0% of the total revenue.

A breakdown of the Group’s revenue for the Period is set out below:

	For the six months ended June 30,		
	2020	2019	
	<i>Rmb’000</i>	<i>Rmb’000</i>	% Change
Toll road operation revenue			
Shanghai-Hangzhou-Ningbo			
Expressway	898,328	1,997,255	-55.0%
Shangsan Expressway	270,782	585,824	-53.8%
Jinhua section, Ningbo-Jinhua			
Expressway	106,387	204,034	-47.9%
Hanghui Expressway	136,331	287,703	-52.6%
Huihang Expressway	34,950	76,652	-54.4%
Shenjiahuhang Expressway	142,171	330,300	-57.0%
Zhoushan Bay Bridge	184,497	400,576	-53.9%
Securities business revenue			
Commission and fee income	1,295,059	853,765	51.7%
Interest income	796,849	787,455	1.2%
Other operation revenue			
Hotel and catering	41,559	80,085	-48.1%
Construction	40,922	118,452	-65.5%
Total revenue	<u>3,947,835</u>	<u>5,722,101</u>	<u>-31.0%</u>

Toll Road Operations

During the Period, affected by the Covid-19 epidemic, the toll-free policy and other policy adjustments, organic growth in traffic volume on the Group's expressways slowed, and toll revenue decreased significantly year-on-year.

In response to the epidemic, Zhejiang Province activated first-level public health emergency response between January 23, 2020 and March 2, 2020 that reduced vehicle traffic and passenger flow significantly. In addition, the Ministry of Transport of the People's Republic of China announced a toll-free policy that would extend the Spring Festival toll-free period for small passenger vehicles to February 8, 2020 (originally from January 24, 2020 to January 30, 2020), and for all vehicles from February 17, 2020 to May 5, 2020. The epidemic and toll-free policy have significantly impacted the Group's toll revenue during the Period.

At the same time, other policy adjustments also caused varied levels of adverse impacts on toll revenue. Among which, from February 12, 2020 to August 5, 2020, Zhejiang Province expanded the beneficiaries of a 15% discount on tolls on a trial basis when travelling on state-owned expressways in Zhejiang Province from all qualified trucks in Zhejiang Province with ETC registration to all qualified trucks in China that have ETC registration. It also increased the discount from 5% to 15% for Class-3 and Class-4 passenger vehicles with ETC registrations travelling on all toll roads in Zhejiang Province. In addition, from February 12, 2020, expressways in Zhejiang Province are offering a 35% discount on tolls for all container trucks in compliance with international standards, and stopped charging entrance fees.

Furthermore, traffic volume on certain sections of the Group's expressways in different regions encountered traffic diversions caused by neighboring roadways and other negative factors. The construction work to repurpose the Hangzhou City section of the Shanghai-Hangzhou-Ningbo Expressway is in progress, as part of the auxiliary project ahead of the Hangzhou 2022 Asian Games. Since May 10, 2020, the road from Desheng to Hongken has been closed for construction, which negatively affected traffic volume on the Shanghai-Hangzhou-Ningbo Expressway. In addition, Subway Line 16 in Hangzhou opened on April 23, 2020, which negatively impacted traffic volume on the Hanghui Expressway. The opening of a north connection road for the Hangzhou Bay Bridge on January 1, 2020 significantly impacted traffic volume on the Shenjiahuhang Expressway. The opening of the Zhoushan Fuchimen Bridge on September 29, 2019 also adversely impacted traffic volume on the Zhoushan Bay Bridge. During the Period, as the tourism industry had yet to fully recover from the epidemic, traffic volume experienced greater impact on the Huihang Expressway and Zhoushan Bay Bridge, which normally benefits from nearby tourism.

Although the abovementioned factors caused a major shock to the Group's toll road operations in the short term, as the epidemic was contained in China, toll collections resumed on May 6, 2020, and toll road operations gradually stabilized. Toll revenue of the Group recorded a year-on-year increase since the resumption of toll collections. At the same time, government subsidies partially offset the decrease in toll revenue during the Period.

During the Period, total toll revenue from the 248km Shanghai-Hangzhou-Ningbo Expressway, the 141km Shangsans Expressway, the 70km Jinhua Section of the Ningbo-Jinhua Expressway, the 122km Hanghui Expressway, the 82km Huihang Expressway, the 93km Shenjiahuhang Expressway and the 46km Zhoushan Bay Bridge was Rmb1,773.45 million.

During the Period, the daily average traffic volume in full-trip equivalents, toll revenue and the corresponding year-on-year growth rates on the Group's expressways are listed below:

The Group's Expressways	Traffic Volume		Toll Revenue	
	Average Traffic Volume (Full-Trip Equivalents)	Year-on-year Growth	Toll Revenue (Rmb million)	Year-on-year Growth
Shanghai-Hangzhou-Ningbo Expressway	62,721	3.27%	898.33	-55.0%
–Shanghai-Hangzhou Section	61,154	0.53%		
–Hangzhou-Ningbo Section	63,853	5.25%		
Shangsans Expressway	33,639	12.34%	270.78	-53.8%
Jinhua Section, Ningbo-Jinhua Expressway	24,718	6.57%	106.39	-47.9%
Hanghui Expressway	22,792	4.35%	136.33	-52.6%
Huihang Expressway	10,237	10.85%	34.95	-54.4%
Shenjiahuhang Expressway	27,370	-5.07%	142.17	-57.0%
Zhoushan Bay Bridge	16,947	-15.74%	184.50	-53.9%

Note: The traffic volume during the Period listed above did not include the traffic volume during the toll-free period (from February 17, 2020 to May 5, 2020), but included toll-free vehicles such as trucks carrying fresh produce.

Securities Business

During the Period, average daily trading volume on the Shanghai and Shenzhen stock markets increased by a total of 29.8% year-on-year. Despite periodic volatility due to the Covid-19 shock, the domestic capital markets started to stabilize and rebound after a variety of policy changes, such as the implementation of a registration-based IPO system and new refinancing regulations for listed companies. Zheshang Securities took advantage of market opportunities to optimize its business structure and improve the core competencies of its key businesses. During the Period, Zheshang Securities recorded favorable results, among which, securities investment, brokerage, investment banking, as well as securities margin trading were the major driving forces for growth.

During the Period, Zheshang Securities recorded total revenue of Rmb2,091.91 million, an increase of 27.5% year-on-year, of which, commission and fee income increased 51.7% year-on-year to Rmb1,295.06 million, and interest income from the securities business was Rmb796.85 million, an increase of 1.2% year-on-year. During the Period, securities investment gains of Zheshang Securities included in the condensed consolidated statement of profit or loss and other comprehensive income of the Group was Rmb1,034.71 million, an increase of 69.8% year-on-year.

Other Business Operations

During the Period, other business revenue was mainly derived from hotel operations and road construction. Hotel operations, in particular, recorded a significant decrease in revenue due to the adverse impact of the Covid-19 epidemic.

Grand New Century Hotel, owned by Zhejiang Yuhang Expressway Co., Ltd. (a 51% owned subsidiary of the Company), recorded revenue of Rmb24.63 million for the Period. Zhejiang Grand Hotel, owned by Zhejiang Grand Hotel Limited (a 100% owned subsidiary of the Company), recorded revenue of Rmb16.93 million for the Period.

Deqing County De'an Highway Construction Co., Ltd. (an 80.1% owned subsidiary of the Company), recorded road construction revenue of Rmb40.92 million for the Period.

Long-Term Investments

Zhejiang Shaoxing Shengxin Expressway Co., Ltd. (“Shengxin Co”, a 50% owned joint venture of the Company) operates the 73.4km Shaoxing Section of Ningbo-Jinhua Expressway. During the Period, the average daily traffic volume in full-trip equivalents was 20,896 (excluding the traffic volume during the toll-free period from February 17, 2020 to May 5, 2020), representing an increase of 0.78% year-on-year. Toll revenue was Rmb102.07 million, representing a decrease of 49.9% year-on-year. During the Period, the joint venture recorded a net loss of Rmb50.58 million, due to the adverse impact of the Covid-19 epidemic and the toll-free policy.

Zhejiang Communications Investment Group Finance Co., Ltd. (an associate of the Company, the equity stake of which was diluted from 35% to 20.08% in April 2020) derives income mainly from interest, fees and commissions for providing financial services, including arranging loans and receiving deposits, for Zhejiang Communications Investment Group Co., Ltd., the controlling shareholder of the Company and its subsidiaries. During the Period, the associate company recorded a net profit of Rmb234.03 million, representing an increase of 9.1% year-on-year.

Yangtze United Financial Leasing Co., Ltd. (a 10.61% owned associate of the Company) is primarily engaged in the finance leasing business, which includes the transferring and receiving of financial leasing assets, fixed-income securities investment, and other businesses approved by the China Banking and Insurance Regulatory Commission. During the Period, the associate company recorded a net profit of Rmb215.06 million, representing an increase of 58.7% year-on-year.

Shanghai Rural Commercial Bank Co., Ltd. (a 5.36% owned associate of the Company) is primarily engaged in commercial banking business, including deposits, short-, medium-, and long-term loans, domestic and overseas settlements and other businesses that are approved by the China Banking and Insurance Regulatory Commission. As at the date of this announcement, this associate has not announced its 2020 interim results.

FINANCIAL ANALYSIS

The Group adopts a prudent financial policy with an aim to provide shareholders of the Company with sound returns over the long term.

During the Period, profit attributable to owners of the Company was approximately Rmb687.10 million, representing a decrease of 65.3% over the corresponding period of 2019, basic earnings per share for the Company was Rmb15.82 cents, representing a decrease of 65.3% year-on-year, diluted earnings per share for the Company was Rmb15.82 cents, representing a decrease of 64.4%, and return on owners' equity was 3.3%, representing a decrease of 67.0% year-on-year.

Liquidity and financial resources

As at June 30, 2020, current assets of the Group amounted to Rmb80,917.73 million in aggregate (December 31, 2019: Rmb68,703.77 million), of which bank balances, clearing settlement fund, deposits and cash accounted for 9.2% (December 31, 2019: 12.2%), bank balances and clearing settlement fund held on behalf of customers accounted for 30.3% (December 31, 2019: 29.3%), financial assets at FVTPL accounted for 38.2% (December 31, 2019: 32.4%) and loans to customers arising from margin financing business accounted for 13.8% (December 31, 2019: 12.7%). The current ratio (current assets over current liabilities) of the Group as at June 30, 2020 was 1.40(December 31, 2019: 1.40). Excluding the effect of the customer deposits arising from the securities business, the resultant current ratio of the Group (current assets less bank balances and clearing settlement fund held on behalf of customers over current liabilities less balance of accounts payable to customers arising from securities business) was 1.70(December 31, 2019: 1.60).

The amount of financial assets at FVTPL included in current assets of the Group as at June 30, 2020 was Rmb30,872.15 million (December 31, 2019: Rmb22,235.48 million), of which 77.9% was invested in bonds, 4.0% was invested in stocks, 11.9% was invested in equity funds, and the rest were invested in structured products and trust products.

During the Period, net cash from the Group's operating activities amounted to Rmb1,304.79 million. The currency mix in which cash and cash equivalents are held has not substantially changed as compared to the same period last year.

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

Borrowings and solvency

As at June 30, 2020, total liabilities of the Group amounted to Rmb84,674.72 million (December 31, 2019: Rmb72,594.84 million), of which 15.6% was bank and other borrowings, 7.3% was short-term financing note, 18.0% was bonds payable, 3.6% was convertible bonds, 19.1% was financial assets sold under repurchase agreements and 28.7% was accounts payable to customers arising from securities business.

As at June 30, 2020, total interest-bearing borrowings of the Group amounted to Rmb37,684.98 million, representing a decrease of 1.4% compared to that as at December 31, 2019. The borrowings comprised outstanding balances of domestic commercial bank loans of Rmb5,058.02 million, balances of an international commercial bank loan, denominated in Euro that equivalents to Rmb2,909.93 million, borrowings from a domestic financial institution of Rmb5,202.80 million, borrowings from a domestic institution of Rmb61.39 million, beneficial certificates of Rmb1,111.40 million, short-term financing note of Rmb5,110.73 million, mid-term notes of Rmb3,064.01 million, subordinated bonds of Rmb7,636.40 million, corporate bonds of Rmb3,574.21 million, asset backed securities of Rmb925.64 million, convertible bond denominated in Rmb of Rmb3,029.70 million, and convertible bond denominated in Euro that equivalents to Rmb0.75 million. Of the interest-bearing borrowings, 69.6% was not payable within one year.

As at June 30, 2020, the Group's borrowings from domestic commercial banks bore annual floating interest rates ranged from 4.21% to 4.9%, annual fixed interest rates ranged from 2.05% to 4.785%, borrowings from an international commercial bank bore an annual floating interest rate of 0.8%. Borrowings from a domestic financial institution bore annual floating interest rates ranged from 3.915% to 4.21%, annual fixed interest rates were 3.85% and 4.21%. Borrowings from a domestic institutions bore annual fixed interest rates of 3.0%. As at June 30, 2020, the annual fixed interest rates of beneficial certificates ranged from 2.25% to 3.0%, the annual floating interest rate of beneficial certificates ranged from 8.0% to 15.8%. The annual fixed interest rate for a short-term financing note ranged from 1.58% to 2.2%. The annual fixed interest rate for a mid-term note were 3.64% and 3.86%. The annual fixed annual interest rates for subordinated bonds ranged from 3.5% to 5.28%. The annual fixed interest rate for corporate bond were 3.48% and 3.85%. The annual fixed interest rate for asset backed securities was 3.70%. The annual coupon rate for convertible bond denominated in Euro was nil, and the annual coupon rate for convertible bond denominated in Rmb was 0.5%. While the annual interest rate for accounts payable to customers arising from the securities business was fixed at 0.35%.

Total interest expenses and profit before interest and tax for the Period amounted to Rmb968.25 million and Rmb2,194.27 million, respectively. The interest cover ratio (profit before interest and tax over interest expenses) stood at 2.3 (Corresponding period of 2019: 5.0) times.

As at June 30, 2020, the asset-liability ratio (total liabilities over total assets) of the Group was 73.1% (December 31, 2019: 69.4%). Excluding the effect of customer deposits arising from the securities business, the resultant asset-liability ratio (total liabilities less balance of accounts payable to customers arising from securities business over total assets less bank balances and clearing settlement fund held on behalf of customers) of the Group was 66.1% (December 31, 2019: 62.3%).

Capital structure

As at June 30, 2020, the Group had Rmb31,218.31 million in total equity, Rmb66,873.35 million in fixed-rate liabilities, Rmb11,483.86 million in floating-rate liabilities, and Rmb6,317.51 million in interest-free liabilities, representing 26.9%, 57.7%, 9.9% and 5.5% of the Group's total capital, respectively. The gearing ratio, which is computed by dividing the total liabilities less accounts payable to customers arising from the securities business by total equity, was 193.4% as at June 30, 2020 (December 31, 2019: 164.4%).

Capital expenditure commitments and utilization

During the Period, capital expenditure of the Group totaled Rmb226.81 million. Amongst the total capital expenditure, Rmb114.18 million was incurred for acquiring equity investments, Rmb10.82 million was incurred for acquisition and construction of properties and ancillary facilities, and Rmb101.81 million was incurred for purchase and construction of equipment and facilities.

As at June 30, 2020, the remaining capital expenditure committed by the Group amounted to Rmb1,826.76 million in total. Amongst the remaining balance of total capital expenditure committed by the Group, Rmb1,106.90 million will be used for acquiring equity investments, Rmb143.04 million will be used for acquisition and construction of properties and ancillary facilities, Rmb576.82 million for acquisition and construction of equipment and facilities.

The Group will consider financing the above-mentioned capital expenditure commitments with internally generated cash flow first and then will comprehensively consider using debt financing and equity financing to meet any shortfalls.

Contingent liabilities and pledge of assets

Pursuant to the board resolution of the Company dated November 16, 2012, the Company and Shaoxing Communications Investment Group Co., Ltd. (the other joint venture partner that holds 50% equity interest in Shengxin Co) provided Shengxin Co with joint guarantee for its bank loans of Rmb2.2 billion, in accordance with their proportionate equity interest in Shengxin Co. During the Period, Rmb95.00 million of the bank loans had been repaid. As at June 30, 2020, the remaining bank loan balance was Rmb1,190.00 million.

Zhejiang Shenjiahuhang Expressway Co., Ltd and Zhejiang Zhoushan Bay Bridge Co., Ltd, the subsidiaries of the Company, pledged their rights of toll on expressway for their bank borrowing, as at June 30, 2020, the remaining bank loan balance was Rmb1,379.21 million and Rmb3,048.50 million respectively.

Deqing County De'an Highway Construction Co., Ltd. a subsidiary of the Company, pledged its trade receivables for its bank borrowing, as at June 30, 2020, the remaining bank loan balance was Rmb327.42 million.

Huangshan Yangtze Huihang Expressway Co., Ltd., a subsidiary of the Company, pledged its right of toll on expressway and advertisement operation right for its borrowing, as at June 30, 2020, the remaining balance was Rmb1,300.03 million.

Among the Rmb2,013.00 million asset backed securities issued on September 23, 2019, the senior class securities of Rmb900.00 million will be secured by the Company.

Except for the above, as at June 30, 2020, the Group did not have any other contingent liabilities, pledge of assets or guarantees.

Foreign exchange exposure

During the Period, save for (i) dividend payments to the holders of H shares in Hong Kong dollars, (ii) Zheshang International Financial Holding Co., Limited. (a wholly owned subsidiary of Zheshang Securities) operating in Hong Kong, (iii) issuance of the zero coupon convertible bond with remaining balance of Euro 0.10 million in Hong Kong capital market in April 2017, which will be due in April 2022; and (iv) the short term international commercial bank borrowing in April 2020 amounted to Euro364.90 million, the Group's principal operations were transacted and booked in Renminbi.

During the Period, the Group has not used any financial instruments for hedging purpose.

OUTLOOK

In the first half of 2020, China's economy experienced a short-term shock due to the Covid-19 epidemic. However, in the second half of 2020, driven by a new economic focus on the domestic front, production and supply will continue to recover and market demands will gradually rebound, which will help China's economy to recover and stabilize. Nevertheless, uncertainties remain in the recovery of China's economy due to the continuous spread of epidemic overseas and complicated external environment.

In the second half of 2020, induced by the toll-free policy and the discount policies for trucks with ETC registration during the epidemic, the traffic volume on the Group's expressways is expected to grow steadily. However, with the increasing number of vehicles with ETC registration, the adverse impact of the ETC discount policies will be further amplified, and toll revenue is expected to record modest growth.

Given that the implementation of the toll-free policy during the epidemic will negatively affect toll road operators, the Ministry of Transport of the People's Republic of China indicated that concessions for toll roads can be extended as compensation to the operators. In the second half of 2020, the Group will proactively coordinate with the relevant authorities of Zhejiang Province to obtain compensation.

In addition, while continuing to promote regular epidemic containment, the Group will also push through high-quality sustainable development of the Company. The Group will build a sound toll collection monitoring platform together with the new toll collection model to persistently improve operation and service levels. The Group will further optimize the mechanism to attract traffic and deepen the implementation of its "expressway + tourism" operation model, as well as to enhance the qualities of its technology-driven expressway management and maintenance, and the abilities to assure safe and smooth traffic flow. The Group will also accelerate the development of intelligent expressways, enhance its brand influence around intelligent expressways and continue to improve the core competitiveness of its core toll road business.

As capital market reforms in China constantly deepen and capital market ecosystem is gradually restructuring, the Group's securities business will encounter new opportunities and challenges. Zheshang Securities will actively study the current situation, fully take advantage of market opportunities – especially investment banking opportunities that arise from the registration-based IPO system – promote efficient resource allocation, and establish distinctive business features and differentiated competitive advantages, with the aim of continuously elevating its brand influence.

In face of the complicated economic situation at home and abroad, the Group will leverage its advantages in resources, progressively enhance its core toll road business, and optimize its securities business. The management team will continue to monitor changes in government policies and the external environment, and explore market-oriented merger and acquisition opportunities with manageable risks, in an effort to further enhance the effective use of capital, expand the core toll road business, and actively explore related businesses to promote high-quality sustainable development for the Company.

IMPORTANT EVENTS OCCURRED SINCE THE END OF THE PERIOD

There has been no occurrence of important events affecting the Group since the end of the Period.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Save as disclosed in this announcement, neither the Company nor any of its subsidiaries purchased, sold, redeemed or cancelled any of the Company's listed securities during the Period.

COMPLIANCE WITH LISTING RULES APPENDIX 14

During the Period, the Company complied with all code provisions in the Corporate Governance Code and Corporate Governance Report (the "Code") set out in Appendix 14 to the Listing Rules, and adopted the recommended best practices in the Code as and when applicable.

PUBLICATION OF FINANCIAL INFORMATION

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.zjec.com.cn). The interim report of the Company for the six months ended 30 June 2020 will be dispatched to shareholders of the Company and will be available on the above websites in due course.

On behalf of the Board
Zhejiang Expressway Co., Ltd.
YU Zhihong
Chairman

Hangzhou, the PRC, August 26, 2020

As at the date of this announcement, the Chairman of the Company is Mr. YU Zhihong; the executive Directors of the Company are: Mr. CHEN Ninghui and Ms. LUO Jianhu; the other non-executive Directors of the Company are: Mr. DAI Benmeng, Mr. YUAN Yingjie and Mr. FAN Ye; and the independent non-executive Directors of the Company are: Mr. PEI Ker-Wei, Ms. LEE Wai Tsang, Rosa and Mr. CHEN Bin.