



浙江滬杭甬高速公路股份有限公司
ZHEJIANG EXPRESSWAY CO., LTD.

Stock Code: 0576

*Enhancing Value through
Extending Our Competitiveness.*

2006 Interim Report

Enhancing Value through Extending Our Competitiveness.

*“Shimmering water at its full, sunny day is best,
The view of mountains is blurred, the rain also is marvelous,
Compare West Lake to the beautiful woman Xi Zi,
She looks just as becoming, lightly made up or richly adorned.”*

– Su Shi, renowned Chinese poet –

In different seasons, at different times, Xi Hu (West Lake) has different charms.

The “Spring Dawn at Su Causeway” in Spring, the “Lotus in the Breeze at Crooked Courtyard” in Summer, the “Three Pools Mirroring the Moon” in Autumn, the “Melting Snow at Broken Bridge” in Winter . . . on a sunny day or a rainy day, Xi Hu has its varied appeals.

For different stakeholders, Zhejiang Expressway represents different kinds of value.

For shareholders, Zhejiang Expressway means a listed company committed to enhancing returns; for customers, it means an expressway operator committed to pursuing excellent services; for employees, it means a first-rate enterprise committed to both enhancing cost efficiency and developing employees’ potential; and for the community, it means a commercial organization which has at heart its social responsibilities.

But no matter for which stakeholders, we at Zhejiang Expressway have always been committed to Enhancing Value through Extending Our Competitiveness. The Company adheres to its prudent but progressive development strategies, strengthening its core business whilst extending its competitiveness to other business areas which have synergies with the core business. Our ultimate goal is to elevate the Company to a new level, with a view to maximizing value for all of our stakeholders.

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2006 Interim Results

The directors (the “Directors”) of Zhejiang Expressway Co., Ltd. (the “Company”) are pleased to present the unaudited consolidated operating results of the Company and its subsidiaries (collectively the “Group”) for the six months ended June 30, 2006 (the “Period”), prepared in conformity with accounting principles generally accepted in Hong Kong, with the basis of preparation as stated in Note 1 to the consolidated financial statements set out below.

During the Period, revenue for the Group grew 30.6% over the same period in 2005 to reach Rmb2,186.4 million, while profit attributable to equity holders of the Company for the Period grew 8.9% to reach Rmb688.7 million. Earnings per share for the Period amounted to Rmb15.86 cents, representing an increase of 8.9% over the same period in 2005.

The Directors have recommended to pay an interim dividend of Rmb7.0 cents per share, subject to the approval of the shareholders at the Company’s proposed extraordinary general meeting to be held on November 16, 2006.

The audit committee of the Company has reviewed the interim results.

Business Review

Amid a drive to adjust economic structures for a more sustainable growth, the economy of Zhejiang Province grew 14.1% during the Period, compared to the national average GDP growth rate of 10.9%, and continued its double-digit growth trend. This has resulted in an even higher growth in demand for transportation needs in the province as well as in the larger Yangtze River Delta region.

Strong growth in transportation needs did not, however, translate into expressway traffic in a commensurate manner, as the growing number of new expressways completed and opened to traffic had not only contributed to economic growth, but had also served to mitigate traffic growth on existing expressways.

Among the total income of Rmb2,212.0 million realized by the Group during the Period, Rmb1,754.0 million, or approximately 79.3%, was attributable to toll income generated by the two major expressways owned and operated by the Group, with the remaining Rmb458.0 million, or approximately 20.7%, attributable to the Group's toll road-related business operations.

During the Period, income from toll road operations grew 8.4% compared to the same period in 2005, while income from toll road-related business operations grew 226.0%. A breakdown of the Group's income during the Period is set out below:

	Six months ended June 30,		
	2006 Rmb'000	2005 Rmb'000	% Change
Toll income			
Shanghai-Hangzhou-Ningbo Expressway	1,344,554	1,215,355	10.6
Shangsán Expressway	409,504	402,549	1.7
Other income			
Service areas	432,007	116,696	270.2
Advertising	25,965	23,786	9.2
Subtotal	2,212,030	1,758,386	25.8
Less: Revenue taxes	(25,626)	(84,474)	-69.7
Revenue	2,186,404	1,673,912	30.6

Business Review

TOLL ROAD OPERATIONS

Daily average traffic volume on the Shanghai-Hangzhou-Ningbo Expressway during the Period was 37,759 in full-trip equivalent, representing a growth of 7.8% year-on-year. The traffic on the expressway's two sections underwent varying degrees of growth: the growth rate for the Shanghai-Hangzhou section was 13.4% year-on-year, while that for the Hangzhou-Ningbo section was 3.5% year-on-year. Meanwhile, daily average traffic volume on the Shangsang Expressway during the Period was 19,922 in full-trip equivalent, representing a reduction in traffic by 1.5% year-on-year.

Slower traffic growth on the Hangzhou-Ningbo section was partly due to traffic diversions to other newly built expressways, and partly due to safety measures introduced along certain areas on the section affected by the ongoing widening works. The slight decline in traffic on the Shangsang Expressway was the result of traffic diversions to both newly built expressways and a parallel national road reopened to traffic after renovation.

The rate of growth in toll income was slightly higher than that in traffic volume on the two expressways, thanks to a continued improvement in traffic mix, where the higher fee-paying heavy trucks have taken up a greater proportion of the overall traffic.

Toll income from the Shanghai-Hangzhou-Ningbo Expressway during the Period amounted to Rmb1,344.6 million, representing an increase of 10.6% year-on-year, while toll income from the Shangsang Expressway during the Period amounted to Rmb409.5 million, representing an increase of 1.7% year-on-year.

TOLL ROAD-RELATED BUSINESS OPERATIONS

Through its subsidiaries, the Group also carried out toll road-related business operations along expressways, including gas stations, restaurants and shops in service areas, roadside billboard advertising and vehicle services.

During the Period, the toll road-related business operations continued to expand. With a change in the operating mode of its gas stations from consigning to self-operating, income from toll road-related business operations reached Rmb458.0 million, representing an increase of 226.0% year-on-year. Discounting the effect of change in the operating mode of gas stations, the growth in income would be 16.1%.

LONG-TERM INVESTMENTS

Traffic volume on Shida Road, a 9.45km toll road owned and operated by Hangzhou Shida Highway Co., Ltd. ("Shida Co.", a 50% owned jointly controlled entity of the Company), grew 16.5% year-on-year during the Period, leading to a 15.8% growth in toll income for the jointly controlled entity. Net profit realized by Shida Co. during the Period was Rmb20.3 million.

During the Period, Zhejiang Expressway Petroleum Development Co., Ltd. ("Petroleum Co.", a 50% owned associate of the Company) saw its revenue grow 43.6% year-on-year, while net profit realized was Rmb7.8 million, representing a decrease of 3.6%. The decrease in net profit was mainly attributable to its inability to adjust its retail gas prices in line with rises in purchase prices under the current regulatory control regime.

JoinHands Technology Co., Ltd. (“JoinHands Technology”, a 27.58% owned associate of the Company) continued to experience weak demand for its computer products. Revenue for the associate company was Rmb8.1 million during the Period, representing a decrease of 11.5% year-on-year, while a net profit of Rmb17.0 thousand was realized.

UPDATES ON THE ACQUIRED SECURITIES BUSINESS

Following the acquisition of 70.46% equity interest in Kinghing Securities Co., Ltd. (“Kinghing Securities”) by Zhejiang Shangsang Expressway Co., Ltd. (a 73.625% owned subsidiary of the Company) on April 20, 2006, the acquisition was approved by the China Securities Regulatory Commission on June 14, 2006, with the Company assuming control over the securities company starting from July 1, 2006. On August 4, 2006, the securities company was renamed as “Zheshang Securities Co., Ltd.” (浙商證券有限責任公司) (“Zheshang Securities”), thereby signifying a new chapter of the company.

The results of Zheshang Securities have not yet been consolidated into the financial statements of the Group. Based on accounting principles generally accepted in the PRC, the company realized Rmb192.8 million in revenue and Rmb100.1 million in profit before taxation during the Period amid favorable sentiment in the domestic capital market.

As at June 30, 2006, and based on accounting principles generally accepted in the PRC, the net asset value of Zheshang Securities stood at Rmb548.5 million.

EXPRESSWAY WIDENING PROJECT

Phase III of the project to widen the Shanghai-Hangzhou-Ningbo Expressway from four lanes to eight lanes (the “Widening Project”) progressed as planned during the Period along the Hangzhou-Ningbo section. With ground preparation being the current focus of ongoing works, the laying of the foundation was completed by the end of June 2006 and overall completion is expected by the end of 2007.

While every effort was made to minimize the impact of construction works on the normal traffic flow along the Hangzhou-Ningbo section, some of the safety measures introduced in areas affected by the Widening Project did slow down travel speed and subsequently reduce the carrying capacity of existing lanes at certain times.

HUMAN RESOURCES

There were no significant changes to the Company’s overall number of employees, remuneration policies, bonus schemes and training schemes from what have been disclosed in the Company’s latest annual report.

Financial Analysis

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

During the Period under review, profit attributable to equity holders of the Company recorded a growth of 8.9% to Rmb688.7 million (2005 restated: Rmb632.7 million), while earnings per share was Rmb15.86 cents (2005 restated: Rmb14.57 cents), resulting in an increase in return on equity from 5.7% for the same period last year to 6.1% for the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at June 30, 2006, current assets of the Group amounted to Rmb1,738.9 million, amongst which Rmb600.0 million held as other receivables was capital contribution to Kinghing Securities (subsequently renamed as Zheshang Securities Co., Ltd.). This has increased the percentage of account receivables, other receivables and inventories amongst total current assets from 24.0% as at the start of the Period to 41.1% as at the end of the Period.

As at June 30, 2006, the Group had adequate net cash inflow generated from operating activities amounting to Rmb1,106.9 million, representing an increase of 4.2% over the same period last year.

The Group's financial position remained healthy. As at June 30, 2006, the Group's cash and cash equivalents amounted to Rmb846.9 million as compared with Rmb723.5 million as at December 31, 2005. In addition, the Group held Rmb149.6 million in time deposits and Rmb10.0 million in money market funds as at June 30, 2006. Details of these balances are as follows:

	As at June 30, 2006 Rmb'000	As at December 31, 2005 Rmb'000
Cash and cash equivalents	846,949	723,513
Renminbi	846,718	723,452
US dollar equivalent	2	2
Euro equivalent	—	—
HK equivalent	229	59
Time deposits	149,624	105,632
Renminbi	149,624	105,632
US dollar equivalent	—	—
Euro equivalent	—	—
HK equivalent	—	—
Short term investments	10,000	612,097
Renminbi	10,000	612,097
Total	1,006,573	1,441,242
Renminbi	1,006,342	1,441,181
US dollar equivalent	2	2
Euro equivalent	—	—
HK equivalent	229	59

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

BORROWINGS AND SOLVENCY

As at June 30, 2006, the Group's total interest-bearing borrowings stood at approximately Rmb2,247.5 million (December 31, 2005: Rmb2,434.7 million), of which Rmb1,502.8 million were not repayable within one year (December 31, 2005: Rmb1,548.2 million). The borrowings mainly comprised outstanding balances of the World Bank loans of Rmb699.9 million in Renminbi equivalent, loans from several domestic commercial banks totaling Rmb475.0 million and corporate bonds amounting to Rmb1 billion that were issued by the Company in 2003 for a term of 10 years. Details of these balances are as follows:

	Maturity profiles			
	Gross amount Rmb'000	Within 1 year Rmb'000	>1 year to 5 years Rmb'000	Beyond 5 years Rmb'000
Floating rates				
World Bank loan	699,909	199,905	381,060	118,944
Fixed rates				
Commercial bank loans	475,000	475,000	—	—
Corporate bonds	1,000,000	—	—	1,000,000
Government loans	72,600	69,800	2,800	—
Total as at June 30, 2006	2,247,509	744,705	383,860	1,118,944
Total as at December 31, 2005	2,434,737	886,540	377,615	1,170,582

During the Period, the interest rates of the Group's semi-annual and annual domestic commercial bank borrowings, totaling Rmb475.0 million, were fixed between 5.022% and 5.58% per annum; the interest rate for Rmb72.6 million government loans remained fixed at 3.00% per annum; and the annual coupon rate for the Rmb1 billion corporate bonds was fixed at 4.29%, with interest payable annually. During the Period, the floating rate of the Group's Rmb699.9 million World Bank loans, denominated in US dollar was 4.51% per annum.

During the Period, interest expenses amounted to Rmb54.8 million and profit before interest and tax amounted to Rmb1,180.4 million. The interest cover ratio (profit before interest and tax over interest expenses) stood at 21.6 (2005 restated: 22.3).

The asset-liability ratio (total liabilities over total assets) was 23.2% as at June 30, 2006 (December 31, 2005: 24.2%).

Financial Analysis

CAPITAL STRUCTURE

The total equity of the Group as at June 30, 2006 amounted to Rmb12,361.9 million (December 31, 2005: Rmb12,363.9 million), while fixed-rate liabilities of the Group amounted to Rmb1,547.6 million, floating-rate liabilities of the Group amounted to Rmb699.9 million and interest-free liabilities of the Group amounted to Rmb1,480.1 million, representing 76.8%, 9.6%, 4.4% and 9.2% of the Group's capital, respectively.

The gearing ratio, which represents the sum of fixed-rate liabilities, floating-rate liabilities and interest-free liabilities over total equity, was 30.2% as at June 30, 2006 (December 31, 2005: 31.9%).

CAPITAL EXPENDITURE COMMITMENTS AND UTILIZATION

Total capital expenditures of the Group and the Company for the Period amounted to Rmb741.3 million and Rmb215.1 million, respectively, with Rmb468.9 million incurred by the investment in Kinghing Securities and Rmb226.0 million incurred by the Widening Project.

As at June 30, 2006, capital expenditures committed by the Group and the Company were Rmb3,836.7 million and Rmb2,934.3 million, respectively. Of the total capital expenditure commitments of the Group, 55.6% will be used on the Widening Project and 28.9% will be used on the construction of Jiashao Expressway.

The above capital expenditure needs will mainly be financed by the Group's internal financial resources, with a preference for debt financing to meet any shortfalls thereof.

CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at June 30, 2006, the Group did not have any contingent liabilities nor any pledge of assets.

FOREIGN EXCHANGE EXPOSURE

As at June 30, 2006, except for the World Bank loans of approximately Rmb699.9 million, denominated in US dollar, and dividends for H shares payable by the Company that are settled in HK dollar, the Group's principal operations are transacted and booked in Renminbi. Therefore, the Group's exposure to foreign exchange fluctuations is limited and the Group has not entered into any financial instrument for hedging purposes.

Although the Directors do not foresee any material foreign exchange risks for the Group, there is no assurance that any further changes in the foreign exchange environment will not adversely affect the operating results of the Group in the future.

Being the first year in the Eleventh Five-Year National Economic Development Plan, 2006 started off well for Zhejiang Province, and there is good reason to believe that strong economic growth will continue with the relevant authorities having placed growing emphasis on stability and balance in managing economic affairs. The provincial economy is expected to further benefit from a double-digit growth in the national economy and the ongoing globalization that continues to generate robust growth in world trade.

While traffic on the two expressways operated by the Group is expected to continue to grow into the second half of 2006, the proportion of higher fee-paying heavy trucks among the overall traffic is expected to stabilize after having more than doubled over the past two years. Therefore, the rate of growth in toll income should more closely mirror that of traffic volume as we approach the end of the year.

As a trial case to further develop toll road-related businesses, Zhejiang Expressway Investment Development Co., Ltd. (a 51% owned subsidiary of the Company) is planning to join local investors to develop a multi-purpose service complex near the Wangdian exit along the Shanghai-Hangzhou Expressway. The complex, expected to be completed by the end of 2008, will house a multitude of shops, restaurants, as well as leisure and entertainment facilities.

Disclosure of Interests and Other Matters

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor its subsidiaries has purchased, sold, redeemed or cancelled any of the Company's shares during the Period.

DISCLOSURE OF DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at June 30, 2006, the interests of the Directors, Supervisors and chief executives in the share capital of the Company's associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Long positions in shares of Zhejiang Expressway Investment Development Co., Ltd.

Name	Position	Contribution of registered capital (Rmb)	Nature of interest	Percentage of the associated corporation's registered capital
Mr. Geng Xiaoping	Chairman	2,400,000	Directly Beneficially owned	3.00%
Mr. Fang Yunti	Director/General Manager	1,920,000	Same as above	2.40%
Mr. Jiang Wenyao	Director	1,320,000	Same as above	1.65%
Mr. Zhang Jingzhong	Director	1,100,000	Same as above	1.38%
Mr. Fang Zhexing	Supervisor	700,000	Same as above	0.88%

Save as disclosed above, as at June 30, 2006, none of the Directors, Supervisors and chief executives had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

As at June 30, 2006, the following shareholders held 5% or more of the issued share capital of the Company according to the register of interests in shares required to be kept by the Company pursuant to Section 336 of the SFO:

Name	Number of shares	Percentage of share capital (domestic shares)
Zhejiang Communications Investment Group Co., Ltd.	2,432,500,000	83.61%
Huajian Transportation Economic Development Center	476,760,000	16.39%

Name	Number of shares	Percentage of share capital (H shares)
Aberdeen Asset Management Plc and its Associates	206,964,000	14.43%
Mondrian Investment Partners Ltd.	156,616,000	10.92%
The Children's Investment Master Fund	132,354,000	9.23%
JPMorgan Chase & Co.	88,765,817	6.19%

Save as disclosed above, as at June 30, 2006, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES AND THE MODEL CODE

The Company was in compliance with the code provisions in the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the Period.

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 to the Listing Rules. The Directors have confirmed their full compliance with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions during the Period.

By order of the Board
Zhejiang Expressway Co., Ltd.
GENG Xiaoping
Chairman

Hangzhou, the PRC, August 29, 2006

Consolidated Income Statement (Unaudited)

				For the six months ended June 30,	
	Notes	2006 Rmb'000	2005 Rmb'000 (Re-stated)		
Revenue	3	2,186,404	1,673,912		
Operating costs		(1,031,346)	(647,269)		
Gross profit		1,155,058	1,026,643		
Other income	4	55,956	62,221		
Administrative expenses		(29,011)	(26,026)		
Other operating expenses		(13,878)	(10,015)		
Profit from operating activities	5	1,168,125	1,052,823		
Finance costs		(47,358)	(46,480)		
Share of profits of associates		2,084	3,497		
Share of profit of a jointly-controlled entity		10,149	10,677		
Profit before tax		1,133,000	1,020,517		
Income tax expense	6	(372,501)	(328,871)		
Profit for the Period		760,499	691,646		
Attributable to:					
Equity holders of the Company		688,729	632,693		
Minority interest		71,770	58,953		
		760,499	691,646		
Dividends					
Proposed interim	7	(304,018)	(304,018)		
Earnings per share	8	15.86 cents	14.57 cents		

Consolidated Balance Sheet

	Notes	As at June 30, 2006 Rmb'000 Unaudited	As at December 31, 2005 Rmb'000 Audited
Non-current assets			
Property, plant and equipment	9	13,386,230	13,422,605
Prepaid lease payments	10	378,380	387,448
Goodwill		85,472	85,472
Interest in a jointly-controlled entity		82,698	79,907
Interests in associates		232,632	226,871
Available-for-sale investments		1,000	1,000
Expressway operating rights		184,194	188,545
		14,350,606	14,391,848
Current assets			
Inventories		13,164	6,446
Loan to an associate		—	116,000
Trade receivables	11	49,495	21,744
Other receivables	12	651,571	316,238
Prepaid lease payments	10	18,137	18,138
Investments held for trading		10,000	612,097
Cash and bank balances		996,573	829,145
		1,738,940	1,919,808
Current liabilities			
Trade payables	13	433,344	402,221
Tax liabilities		304,830	334,048
Other taxes payable		15,148	31,779
Other payables and accruals	14	346,632	327,471
Dividend payable		7,355	33,379
Interest-bearing bank and other borrowings		744,705	886,539
		1,852,014	2,015,437
Net current liabilities		(113,074)	(95,629)
Total assets less current liabilities		14,237,532	14,296,219
Non-current liabilities			
Interest-bearing bank and other borrowings		502,804	548,198
Long-term bonds		1,000,000	1,000,000
Deferred tax liabilities	15	372,806	384,153
		1,875,610	1,932,351
		12,361,922	12,363,868
Capital and reserves			
Share capital		4,343,115	4,343,115
Reserves	16	6,586,047	6,201,336
Proposed dividend	16	304,018	651,467
Equity attributable to equity holders of the Company		11,233,180	11,195,918
Minority interests		1,128,742	1,167,950
Total equity		12,361,922	12,363,868

Condensed Consolidated Summary Statement of Changes in Equity (Unaudited)

	Attributable to equity holders of the Company			Minority interest	Total equity
	Share capital Rmb'000	Reserves Rmb'000	Total Rmb'000	Rmb'000	Rmb'000
Balance at January 1, 2005	4,343,115	6,377,096	10,720,211	1,092,295	11,812,506
Profit for the six months ended June 30, 2005	—	711,457	711,457	66,794	778,251
Dividends paid to shareholders of the Company	—	(651,467)	(651,467)	—	(651,467)
Dividends paid to minority shareholders	—	—	—	(58,508)	(58,508)
Balance at June 30, 2005 as originally stated	4,343,115	6,437,086	10,780,201	1,100,581	11,880,782
Effects of changes in accounting estimate	—	(78,764)	(78,764)	(7,841)	(86,605)
Balance at June 30, 2005 as re-stated	4,343,115	6,358,322	10,701,437	1,092,740	11,794,177
Balance at January 1, 2006	4,343,115	6,852,803	11,195,918	1,167,950	12,363,868
Profit for the six months ended June 30, 2006	—	688,729	688,729	71,770	760,499
Dividends paid to shareholders of the Company	—	(651,467)	(651,467)	—	(651,467)
Dividends paid to minority shareholders	—	—	—	(110,978)	(110,978)
Balance at June 30, 2006	4,343,115	6,890,065	11,233,180	1,128,742	12,361,922

Condensed Consolidated Cash Flow Statement (Unaudited)

	For the six months ended June 30,	
	2006 Rmb'000	2005 Rmb'000
Net cash inflow from operating activities	1,106,879	1,062,307
Net cash inflow from investing activities	(7,748)	(579,565)
Net cash inflow from financing activities	(975,695)	(533,615)
Increase/(Decrease) in cash and cash equivalents	123,436	(50,873)
Cash and cash equivalents at the beginning of the Period	723,513	721,999
Cash and cash equivalents at the end of the Period	846,949	671,126
Analysis of cash and cash equivalents		
Cash and bank balances	662,106	548,245
Time deposits with original maturity of less than 3 months	184,843	122,881
	846,949	671,126

Notes to Condensed Financial Statements

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance 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”) and with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting”.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2005 except as described below.

During the Period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are either effective for accounting periods beginning on or after December 1, 2005 or January 1, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group:

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC)-Int 8	Scope of HKFRS 2 ³
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁴

¹ Effective for annual periods beginning on or after January 1, 2007

² Effective for annual periods beginning on or after March 1, 2006

³ Effective for annual periods beginning on or after May 1, 2006

⁴ Effective for annual periods beginning on or after June 1, 2006

3. SEGMENT INFORMATION

During the Period, there was no change in the principal activities of the Group. The operating results by principal activities are summarized as follows:

	For the six months ended June 30,			
	2006		2005	
	Revenue Rmb'000 Unaudited	Profit Contribution Rmb'000 Unaudited	Revenue Rmb'000 Unaudited	Profit Contribution Rmb'000 Unaudited (Re-stated)
Segment by business activities				
– Toll	1,732,700	1,114,125	1,537,003	1,002,598
– Service areas	429,150	26,862	114,449	10,419
– Advertising	24,554	14,071	22,460	13,626
	<u>2,186,404</u>	<u>1,155,058</u>	<u>1,673,912</u>	<u>1,026,643</u>
Other revenue		55,956		62,221
Administrative expenses		(29,011)		(26,026)
Other operating expenses		(13,878)		(10,015)
Profit from operating activities		<u>1,168,125</u>		<u>1,052,823</u>

No further analysis of the revenue and profit from operating activities by geographical segment was prepared as the revenue and profit from operating activities of the Group were all generated from Zhejiang Province, the People's Republic of China (the "PRC"), during the Period.

4. OTHER INCOME

	For the six months ended June 30,	
	2006 Rmb'000 Unaudited	2005 Rmb'000 Unaudited
Profit from short term securities investment	4,775	20,275
Interest income	16,670	12,901
Rental income	7,162	13,348
Trailer income	11,478	9,578
Exchange gain/(loss)	6,556	(778)
Other miscellaneous income	9,315	6,897
Total	<u>55,956</u>	<u>62,221</u>

Notes to Condensed Financial Statements

5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging the following:

	For the six months ended June 30,	
	2006 Rmb'000 Unaudited	2005 Rmb'000 Unaudited (Re-stated)
Depreciation	306,918	259,946
Amortization of expressway operating rights	4,350	4,350
Amortization of prepaid lease payments	9,068	9,069
Staff costs	56,318	55,262

6. INCOME TAX EXPENSES

As the Group had no taxable profits in Hong Kong during the Period, no Hong Kong profits tax had been provided.

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

	For the six months ended June 30,	
	2006 Rmb'000 Unaudited	2005 Rmb'000 Unaudited (Re-stated)
Group		
Tax charged	383,848	328,805
Deferred	(11,347)	66
Tax charge for the Period	372,501	328,871

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the PRC to the tax expense at the effective tax rates is as follows:

	For the six months ended June 30,	
	2006 Rmb'000 Unaudited	2005 Rmb'000 Unaudited (Re-stated)
Group		
Profit before tax	1,133,000	1,020,517
Tax at the statutory tax rate of 33%	373,890	336,771
Tax effect of share of profits of associates	(688)	(1,154)
Tax effect of share of profit of a jointly-controlled entity	(3,349)	(3,523)
Tax effect of net (income)/expense that is not (taxable)/deductible in determining taxable profit	2,648	(3,223)
Tax charge at the Group's effective tax rate	372,501	328,871

7. DIVIDENDS

The Directors have recommended the payment of an interim dividend of Rmb7.0 cents per share (2005: Rmb7.0 cents), subject to the approval of the shareholders at the Company's proposed extraordinary general meeting to be held on November 16, 2006. The recommendation has been set out in the financial statements.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Company for the Period of Rmb688,729,000 (2005: Rmb632,693,000) and the 4,343,114,500 shares (2005: 4,343,114,500 shares) in issue during the Period.

Diluted earnings per share for the Period have not been calculated, as no diluting event occurred during these years.

9. PROPERTY, PLANT AND EQUIPMENT

There were no significant changes to the Group's property, plant and equipment during the Period.

10. PREPAID LEASE PAYMENT

	As at June 30, 2006 Rmb'000 Unaudited	As at December 31, 2005 Rmb'000 Audited
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong:		
Medium-term lease	396,517	405,586
Analysis for reporting purposes as:		
Current asset	18,137	18,138
Non-current asset	378,380	387,448
	396,517	405,586

The amount represents the prepayment of rentals under operating lease for "land use rights" situated in the PRC for a period of 30 years.

Notes to Condensed Financial Statements

11. TRADE RECEIVABLES

The aging analysis of trade receivables at the balance sheet dates are as follows:

	As at June 30, 2006 Rmb'000 Unaudited	As at December 31, 2005 Rmb'000 Audited
Within 1 year	47,235	20,470
1 to 2 years	1,011	1,274
Over 2 years	1,249	—
Total	49,495	21,744

The Group allows an average credit period of approximately 180 days to its trade customers.

12. OTHER RECEIVABLES

	As at June 30, 2006 Rmb'000 Unaudited	As at December 31, 2005 Rmb'000 Audited
Prepayments	22,349	21,793
Capital contribution to Kinghing Securities	600,000	—
Entrusted loan to a related party	—	260,000
Deposits and other debtors	29,222	34,445
Total	651,571	316,238

13. TRADE PAYABLES

The aging analysis of trade payables at the balance sheet dates are as follows:

	As at June 30, 2006 Rmb'000 Unaudited	As at December 31, 2005 Rmb'000 Audited
Within 1 year	344,003	368,672
1 to 2 years	68,199	26,786
2 to 3 years	21,057	3,211
Over 3 years	85	3,552
Total	433,344	402,221

14. OTHER PAYABLES AND ACCRUALS

	As at June 30, 2006 Rmb'000 Unaudited	As at December 31, 2005 Rmb'000 Audited
Accruals	55,565	80,277
Other liabilities	276,317	232,444
Amounts due to related parties	12,151	12,151
Amounts due to the holding company	2,599	2,599
Total	346,632	327,471

15. DEFERRED TAX

	As at June 30, 2006 Rmb'000 Unaudited	As at December 31, 2005 Rmb'000 Audited
Deferred tax liabilities		
At beginning of period/year	384,153	384,577
(Income) for the period/year	(11,347)	(424)
At end of period/year	372,806	384,153
Analysed by principal components		
Revaluation on marketable securities at market price of the end of period/year	(2,966)	7,176
Temporary differences resulting from depreciation method	(8,381)	(7,600)
	(11,347)	(424)
Deferred tax assets		
At beginning of period/year	—	38,319
(Income) for the period/year	—	(38,319)
At end of period/year	—	—
Analysed by principal components		
Temporary difference resulting from disposal of property, plant and equipment	—	(38,319)
	—	(38,319)

The Group has no significant potential deferred tax liabilities for which provision has not been made.

Notes to Condensed Financial Statements

16.RESERVES

	Share premium account Rmb'000	Goodwill reserve Rmb'000	Statutory surplus reserve Rmb'000	Voluntary surplus reserve Rmb'000	Statutory public welfare fund Rmb'000	Dividend reserve Rmb'000	Retained profits Rmb'000	Total Rmb'000
As at January 1, 2006	3,645,726	—	1,068,054	—	431,448	651,467	1,056,108	6,852,803
Profit for the Period	—	—	—	—	—	—	688,729	688,729
Dividends paid to shareholders of the Company	—	—	—	—	—	(651,467)	—	(651,467)
Proposed interim dividend	—	—	—	—	—	304,018	(304,018)	—
Transfer to voluntary surplus reserve	—	—	—	431,448	(431,448)	—	—	—
As at June 30, 2006	3,645,726	—	1,068,054	431,448	—	304,018	1,440,819	6,890,065

	Share premium account Rmb'000	Goodwill reserve Rmb'000	Statutory surplus reserve Rmb'000	Voluntary surplus reserve Rmb'000	Statutory public welfare fund Rmb'000	Dividend reserve Rmb'000	Retained profits Rmb'000	Total Rmb'000
As at January 1, 2005	3,645,726	(352,860)	892,951	—	431,448	651,467	1,108,364	6,377,096
Profit for the Period	—	—	—	—	—	—	711,457	711,457
Dividends paid to shareholders of the Company	—	—	—	—	—	(651,467)	—	(651,467)
Proposed interim dividend	—	—	—	—	—	304,018	(304,018)	—
As as June 30, 2005 as originally stated	3,645,726	(352,860)	892,951	—	431,448	304,018	1,515,803	6,437,086
Effects of changes in accounting estimate	—	—	—	—	—	—	(78,764)	(78,764)
As at June 30, 2005 as re-stated	3,645,726	(352,860)	892,951	—	431,448	304,018	1,437,039	6,358,322

In accordance with relevant regulations issued by Ministry of Finance of PRC on April 1, 2006, the Company, its subsidiaries, associates and jointly-controlled entity (collectively the “Entities”) are required to transfer their balances of statutory public welfare fund as at December 31, 2005 to surplus reserve. As at June 30, 2006, approximate Rmb431,448,000 were transferred to voluntary surplus reserve.

17.COMMITMENTS

	As at June 30, 2006		
	Commitments Rmb million	Utilization Rmb million	Balance Rmb million
Shanghai-Hangzhou-Ningbo Expressway widening project:			
From Dajing to Fengjing	2,508	1,648	860
From Guzhu to Duantang	2,300	1,026	1,274
Acquisition of additional 18.4% equity interest in Zhejiang Shangsans Expressway Co., Ltd.	485	—	485
Remaining construction works of the Shangsans Expressway	48	4	44
Purchase of machinery	87	24	63
Jiashao Expressway project	1,145	35	1,110
Total	6,573	2,737	3,836

18.RELATED PARTY TRANSACTION

The following are related party transactions in the daily operating activities of the Group:

- a) On June 20, 2005, the Company signed a guarantee contract with the limitation of Rmb50,000,000 with Huaxia Bank Hangzhou Gaoxin Branch to provide a guarantee for the liabilities of the Zhejiang Expressway Investment Development Co., Ltd (“Development Co.”) from March 31, 2005 to March 31, 2006. By June 30, 2006, the loan balance of Rmb 50,000,000 was repaid; On November 18, 2005, the Company signed a guarantee contract with the limitation of Rmb 150,000,000 with Shenzhen Development Bank Hangzhou Huanglong Branch to provide a guarantee for the liabilities of the Development Co. from November 18, 2005 to November 18, 2006. By June 30, 2006, the loan balance was Rmb60,000,000;
- b) On November 17, 2005, the Company signed an entrusted loan contract with Zhejiang Jinji Property Co., Ltd. (“Jinji Co.”), a subsidiary of the Zhejiang Communication Investment Group Co., Ltd. (“Communication Group”). According to the contract, the bank agreed to provide a half-year loan of Rmb260,000,000 to Jinji Co. on behalf of the Company. The rate of the loan was 6.55% for the half year. The loan was guaranteed by the Communication Group. The loan was paid back on April 29, 2006;
- c) According to decisions of the extraordinary general meeting of Development Co. on December 28, 2005, the company entrusted China Everbright Bank Hangzhou Zhaohui branch to provide a loan of Rmb50,000,000 to the Zhejiang Concord Property Investment Co., Ltd. (a 45% owned associate of Development Co.), from January 5, 2006 to January 5, 2007 with a rate of 10% per annum. The loan was paid back on June 20, 2006. According to decisions of the extraordinary general meeting of Development Co. on December 28, 2005, the company entrusted China Everbright Bank Hangzhou Zhaohui branch to provide a loan of Rmb46,000,000 to the Zhejiang Concord Property Investment Co., Ltd., from January 23, 2006 to January 23, 2007 with a rate of 10% per annum. The loan was paid back on June 29, 2006;

Notes to Condensed Financial Statements

18. RELATED PARTY TRANSACTION (Continued)

- d) Transactions and balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government (“state-controlled entities”). In addition, the Group itself is part of a larger group of companies under the Communication Group which is controlled by the PRC government. Apart from the transactions with the Communications Group and other related parties, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group’s business transactions with them are concerned.

In addition the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

In view of the Group’s toll road business, the directors are of the opinion that it is impracticable to ascertain the identity of individual expressway travelers and accordingly whether the transactions are with other state-controlled entities in the PRC.

19. POST BALANCE SHEET EVENTS

- a) On July 1, 2006, Kinghing Securities Co., Ltd. (“Kinghing Securities”) held its third extraordinary general meeting of shareholders, approving new articles of association and electing a new session of board of directors. Mr. Fang Yunti, Mr. Pan Jiaxiang and Mr. Zhang Jingzhong, who are directors of Zhejiang Shangsang Expressway Co., Ltd. (“Shangsang Co.”), were elected as directors of Kinghing Securities, with Mr. Fang Yunti elected as chairman of the board of directors.
- b) On August 4, 2006, the China Securities Regulatory Commission gave its approval for Kinghing Securities to change its name to Zheshang Securities Co., Ltd. (“Zheshang Securities”), as well as approving its articles of association. On August 15, 2006, Zheshang Securities completed its registration with Zhejiang Industrial and Commercial Administrative Bureau, and had a new business license issued.

20. CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at June 30, 2006, the Group did not have any contingent liabilities nor any pledge of assets.

21.COMPARATIVE AMOUNTS

Starting with the financial year 2005, expressways and bridges are depreciated by straight-line method in the residual years, which is a change in accounting estimate, and is considered by the Directors to be suitable in the future. Due to this change of accounting estimate for the six months ended June 30, 2005, the carrying value of property, plant and equipment and the profit before tax were decreased, while the depreciation expense was increased by an amount of Rmb130,614,000. Accordingly, profit attributable to equity holders of the Company was decreased by Rmb78,764,000 for the six months ended June 30, 2005.

Therefore, certain comparative figures have been restated to conform to the Period's presentation.

22.APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on August 29, 2006.

Corporate Information

EXECUTIVE DIRECTORS

Geng Xiaoping (Chairman)
Fang Yunti (General Manager)
Zhang Jingzhong
Jiang Wenyao

NON-EXECUTIVE DIRECTORS

Zhang Luyun
Zhang Yang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tung Chee Chen
Zhang Junsheng
Zhang Liping

SUPERVISORS

Ma Kehua
Fang Zhexing
Zheng Qihua
Jiang Shaozhong
Wu Yongmin

COMPANY SECRETARY

Zhang Jingzhong

AUTHORISED REPRESENTATIVES

Geng Xiaoping
Zhang Jingzhong

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Hong Kong
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PRINCIPAL BANKERS

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

H SHARE REGISTRAR AND TRANSFER OFFICE

Hong Kong Registrars Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

H SHARES LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Code: 0576

London Stock Exchange plc
Code: ZHEH

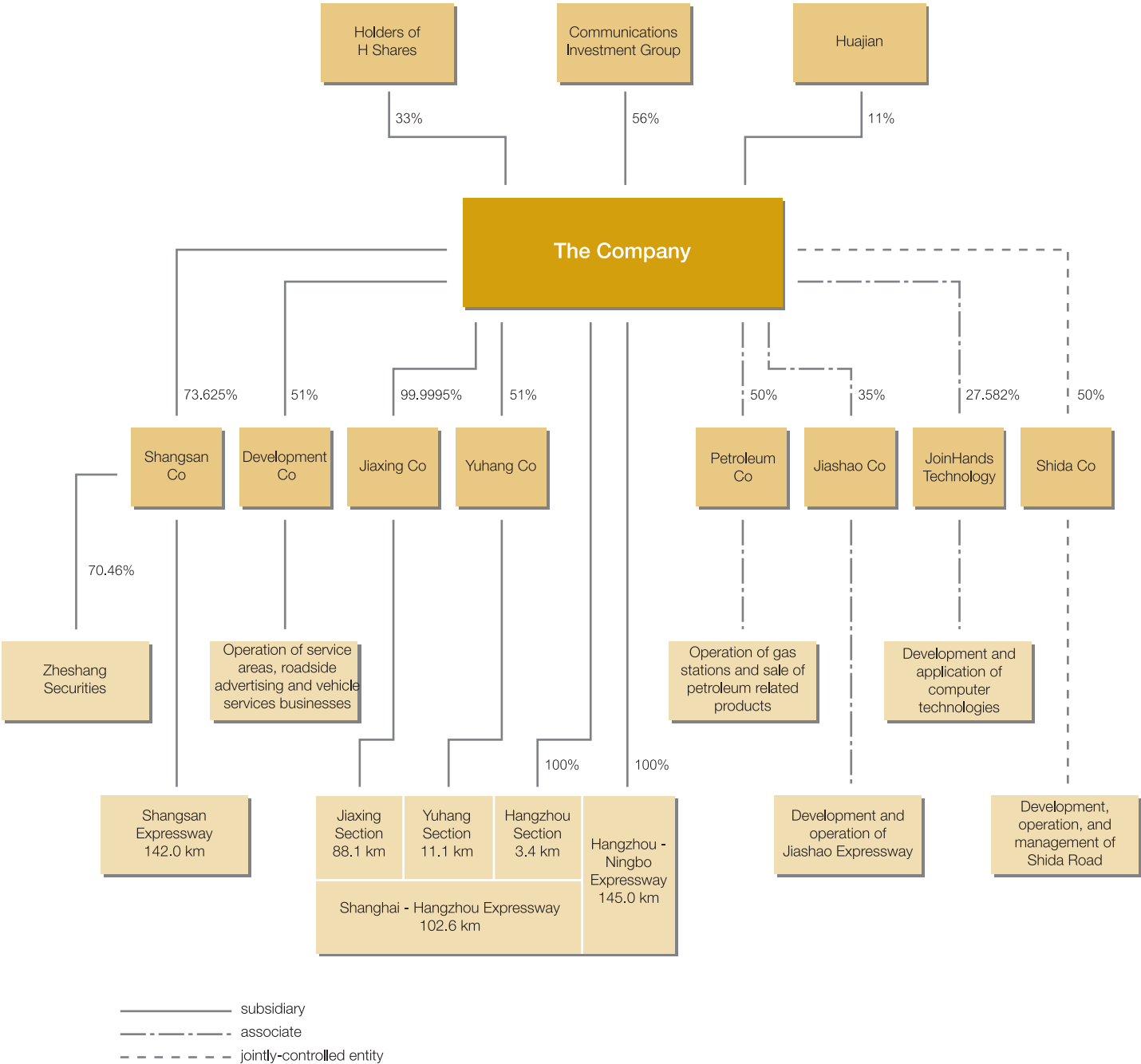
ADRS INFORMATION

US Exchange: OTC
Symbol: ZHEXY
CUSIP: 98951A100
ADR: H Shares 1:30

CORPORATE BOND LISTING INFORMATION

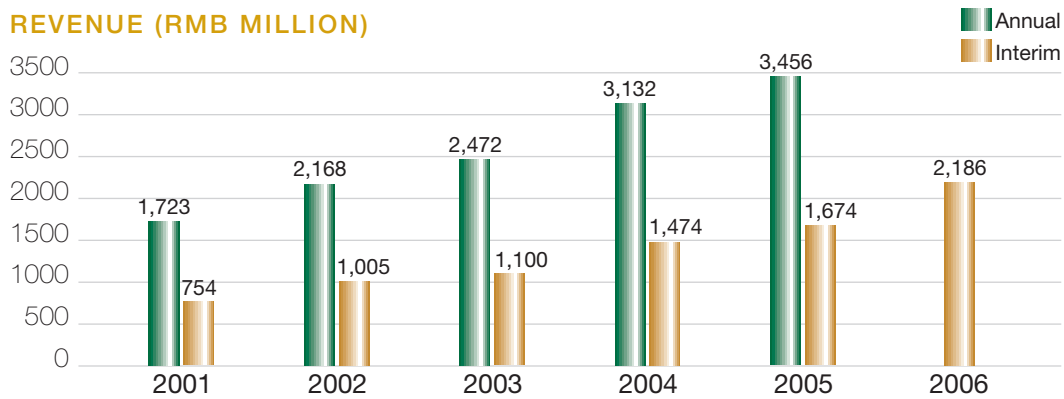
The Shanghai Stock Exchange
Symbol: 03 滬杭甬
Code: 120308

Corporate Structure of the Group

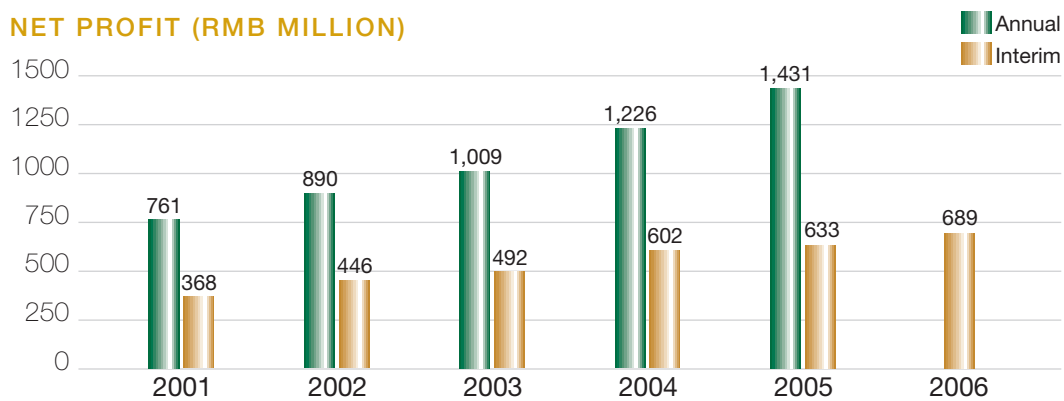


Financial Highlights

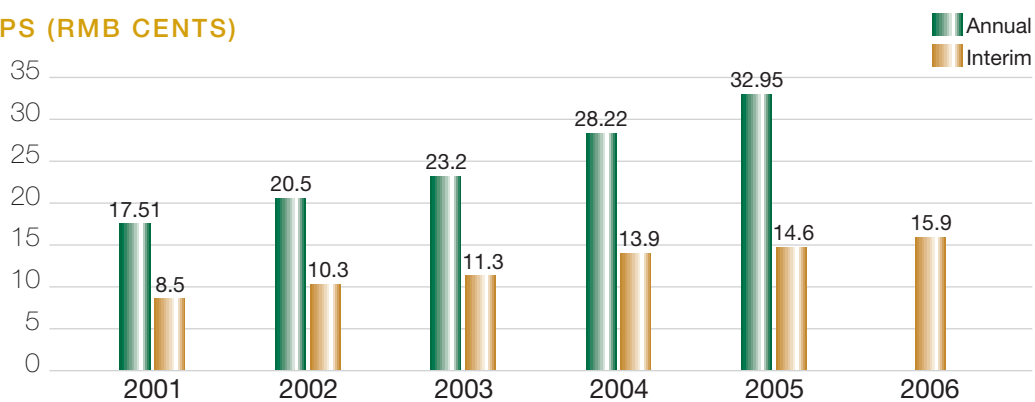
REVENUE (RMB MILLION)



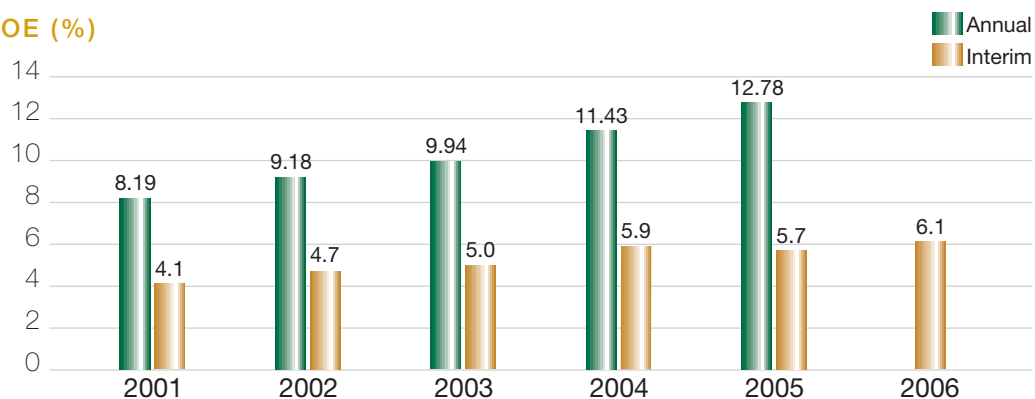
NET PROFIT (RMB MILLION)



EPS (RMB CENTS)



ROE (%)



Location Map of Expressways Operated by the Group



Location Map of Expressways Operated by the Group

