



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



Shanghai

Hangzhou

Ningbo

Taizhou

*Creating Value through
Service Excellence.*

2005
Interim Report

Pursue Excellence, Create Value, Cultivate Harmony.

The corporate mission of Zhejiang Expressway is to pursue excellence as our premises and to create value as our goal. In pursuing excellence in various aspects, we also take creating optimal value for various stakeholders as a starting point as well as an objective. We believe that only through creating the best value for various stakeholders including shareholders, customers, employees, business partners and the community at large and cultivating co-dependent, harmonious relationships with them will the Company achieve sustainable, long-term success.



Contents

- 1 2005 Interim Results
 - 2 Business Review
 - 5 Financial Analysis
 - 9 Outlook
 - 10 Disclosure of Interests and Other Matters
 - 13 Consolidated Income Statement
 - 14 Consolidated Balance Sheet
 - 16 Condensed Consolidated Summary
Statement of Changes in Equity
 - 17 Condensed Consolidated Cash Flow
Statement
 - 18 Notes to Condensed Financial
Statements
- Appendices
- 31 Corporate Information
 - 33 Corporate Structure of the Group
 - 34 Financial Highlights
 - 35 Location Map of Expressways Operated
by the Group

2005 Interim Results (Unaudited)

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, 2005 (the "Period"), prepared in conformity with accounting principles generally accepted in Hong Kong, with basis of preparations as stated in Note 1 to the consolidated financial statements set out below.

During the Period, turnover for the Group grew 13.5% over the same period in 2004 to reach Rmb1,673.9 million, while net profit from ordinary activities attributable to shareholders of the Company grew 18.1% to reach Rmb711.5 million. Earnings per share for the Period amounted to Rmb16.38 cents, representing an increase of 18.1% over the same period in 2004.

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 October 31, 2005.

The ongoing macro-economic control measures at the national level, accompanied by growing structural conflicts as well as a slowdown in the investment growth rate at the provincial level, have slowed down the pace of economic growth in Zhejiang Province, causing the GDP growth rate to come down from 15.5% in the first half of 2004 to 12.0% during the Period.

The slower economic growth rate in Zhejiang Province during the Period was a major factor that contributed to significantly lower traffic volume growth rates on the expressways operated by the Group.

During the Period, income from toll road operations grew 11.4% compared to the same period in 2004 to Rmb1,617.9 million, while income from toll road-related business operations grew 34.9% to Rmb170.3 million.

A breakdown of the Group's turnover during the Period is set out below:

	Six months ended June 30,		
	2005 Rmb'000	2004 Rmb'000	% Change
Toll income			
Shanghai-Hangzhou-Ningbo Expressway	1,215,355	1,106,114	9.9%
Shangsan Expressway	402,549	345,916	16.4%
Other income			
Service areas	116,696	81,852	42.6%
Advertising	23,786	19,510	21.9%
Subtotal	1,758,386	1,553,392	13.2%
Less: Revenue taxes	(84,474)	(79,025)	6.9%
Turnover	1,673,912	1,474,367	13.5%

Toll Road Operations

Traffic volume growth on the expressways operated by the Group remained solid in the first half of 2005, though at significantly lower rates than those of the past few years.

Average daily traffic volume on the Shanghai-Hangzhou-Ningbo Expressway in full-trip equivalents was 35,295 during the Period, representing a growth of approximately 7.2% compared to the same period in 2004, while toll income generated was Rmb1,215.4 million, representing an increase of 9.9% compared to the same period in 2004.

The Shangsan Expressway, on the other hand, recorded average daily traffic volume in full-trip equivalents of 20,794 during the Period, and generated toll income of Rmb402.5 million, representing increases of 9.5% and 16.4%, respectively, over the same period in 2004.

In addition to the impact of a slower economic growth in Zhejiang Province, the ongoing expressway widening project(s) along the Shanghai-Hangzhou-Ningbo Expressway as well as on neighboring expressway(s) during the Period has also contributed to a certain degree of traffic diversions away from the Shanghai-Hangzhou-Ningbo Expressway, especially on the Jiaxing section.

The lowering of toll rates for heavy trucks of 10 tons or above since the start of the year, together with corresponding adjustments to the classification of heavy trucks, has resulted in a continued increase of heavy trucks amongst the traffic flow, in absolute terms and in proportion to total traffic flow, hence the significantly higher growth rates in toll income relative to traffic volume during the Period.

Toll Road-related Business Operations

The Group continued to engage in a number of toll road-related business operations such as service area operations, billboard advertising and vehicle servicing along the expressways operated by the Group.

During the Period, businesses such as restaurants and shops in service areas as well as roadside billboard advertising and vehicle servicing operations continued to grow at rates higher than that of the toll road business. Turnover generated from these toll road-related business operations grew approximately 35.3% compared to the same period in 2004 to Rmb166.7 million.

Long-term Investments

Traffic volume on the 9.45km Shida Road, owned and operated by Hangzhou Shida Highway Co., Ltd. (a 50% owned jointly controlled entity of the Company), grew 23.3% during the Period, while toll income grew 15.8% to reach Rmb40.4 million. Profit before taxation realized by the jointly controlled entity was Rmb31.9 million, representing an increase of 43.7% over the same period in 2004.

Growing demand for gasoline consumption during the Period has helped to push revenue up by 27.1% at Zhejiang Expressway Petroleum Development Co., Ltd. (a 50% owned associate of the Company), while surging oil prices in the world market have narrowed profit margins at the same time. Net profit realized by the associated company was Rmb8.1 million, representing a decrease of 43.3% compared to the same period in 2004.

JoinHands Technology Co., Ltd. (a 27.58% owned associate of the Company) experienced fierce competition in its field of computer networking and digital printing businesses. While turnover increased by 68.9% compared to the same period in 2004, the associate company incurred a loss of Rmb2.0 million during the Period. However, the loss had limited impact on the Group.

Expressway Widening Project

Of the ongoing project to widen the Shanghai-Hangzhou-Ningbo Expressway from four lanes to eight lanes (the "Widening Project"), Phase II (the section between Hangzhou and Shanghai) remained on track for full completion by the end of 2005, while Phase III (the section between Shangyu and Ningbo) has been progressing on schedule, and is targeted for completion by the end of 2007.

According to the current status of the Widening Project, we expect to complete the entire Widening Project within the budget of Rmb5.24 billion.

Human Resources

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

Financial Analysis

The Group adopted prudent financial policies and was in a sound financial position while maintaining a double-digit growth in its operating results during the Period.

Liquidity

As at June 30, 2005, the Group held Rmb1,883.1 million in current assets, amongst which account receivables, other receivables and inventories accounted for 25.1% (December 31, 2004: 21.9%).

As at June 30, 2005, the Group had adequate net cash inflow generated from operating activities that amounted to Rmb1,062.3 million.

The current ratio (current assets divided by current liabilities) was 1.0 at June 30, 2005 (December 31, 2004: 1.1). Considering the nature of the principal businesses of the Group and the large percentage of cash and cash equivalents amongst its current assets, the present current ratio represents a satisfactory level of liquidity for the Group.

Borrowings and Capital Structure

Borrowings

During the Period, total interest-bearing borrowings of the Group increased from Rmb2,443.5 million at the beginning of the Period to Rmb2,638.9 million as at June 30, 2005. The long-term interest-bearing borrowings that the Group held as of June 30, 2005 amounted to Rmb1,623.6 million, representing a decrease of 1.9% from that at the beginning of the Period, while the short-term interest-bearing borrowings that the Group held amounted to Rmb1,015.3 million, representing an increase of 28.9% from that at the beginning of the Period. Details are as follows:

	Maturity profiles			
	Gross amount	Within 1 year	2-5 years inclusive	Beyond 5 years
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Floating rates				
World Bank loan	776,292	157,892	365,827	252,573
Fixed rates				
Commercial bank loans	790,000	790,000	–	–
Corporate bonds	1,000,000	–	–	1,000,000
Government loans	72,600	67,380	5,220	–
Total as at June 30, 2005	2,638,892	1,015,272	371,047	1,252,573
Total as at December 31, 2004	2,443,462	787,892	377,847	1,277,724

During the Period, the interest rates of the Group's semi-annual and annual domestic commercial bank borrowings, which amounted to Rmb790.0 million, ranged between 4.67% and 5.58%. The effective interest rate of the Group's Rmb776.3 million World Bank loans, denominated in US dollar, was 4.11% during the Period. The coupon rate of the Rmb1 billion corporate bonds issued by the Company was 4.29% per annum, with interest payable once a year. The interest rate of government loans in Renminbi remained the same as that applicable as at December 31, 2004.

Except for the US dollar loans extended by the World Bank that bore interest at a floating rate, the interest rates of the Group's other interest-bearing borrowings during the Period were fixed.

With profit before interest and tax at approximately Rmb1,197.7 million, the Group's interest cover ratio (profit before interest and tax over interest expense) for the Period was 25.0 (June 30, 2004: 17.6).

Capital Structure

As at June 30, 2005, the Group had Rmb11,880.8 million total equity, Rmb1,862.6 million fixed-rate liabilities, Rmb776.3 million floating-rate liabilities and Rmb1,354.4 million interest-free liabilities, representing approximately 74.8%, 11.7%, 4.9% and 8.6%, respectively, of the Group's total capital.

The gearing ratio, which represents the sum of fixed-rate liabilities, floating-rate liabilities and interest-free liabilities over total equity, was 33.6% as at June 30, 2005 (December 31, 2004: 30.9%). The Directors believe that the solvency of the Group remained strong during the Period.

Net Current Assets and Total Assets Less Current Liabilities

As at June 30, 2005, the Group had Rmb1,883.1 million current assets, Rmb1,940.9 million current liabilities and Rmb15,874.1 million total assets, thereby the net current assets (current assets minus current liabilities) of the Group was Rmb-57.8 million (December 31, 2004: Rmb303.3 million), while total assets less current liabilities was Rmb13,933.2 million (December 31, 2004: Rmb13,852.7 million).

Financial Resources

As at June 30, 2005, the Group had cash and cash equivalents of Rmb671.1 million in aggregate, time deposits of Rmb92.2 million and short-term investments of Rmb629.7 million, totaling Rmb1,393.0 million (December 31, 2004: Rmb1,480.1 million). Details are as follows:

	As at June 30, 2005 Rmb'000	As at December 31, 2004 Rmb'000
Cash and cash equivalents	671,126	721,999
Renminbi	671,074	717,559
US dollar equivalent	-	4,434
Euro equivalent	-	-
HK equivalent	52	6
Time deposits	92,200	81,740
Renminbi	92,200	81,740
US dollar equivalent	-	-
Euro equivalent	-	-
HK equivalent	-	-
Short-term investments	629,720	676,447
Renminbi	629,720	676,447
Total	1,393,046	1,480,186
Renminbi	1,392,994	1,475,746
US dollar equivalent	-	4,434
Euro equivalent	-	-
HK equivalent	52	6

During the Period, short-term investments were reduced by 6.9% to Rmb629.7 million, amongst which 93.4% were held in treasury bonds, with the remaining being close-ended securities investment funds. The reduction in the overall size of the Group's short-term investment is expected to continue in the second half of the year 2005.

The Directors believe that its capital expenditure needs and its working capital funding, as well as its other known or expected commitments or liabilities, can be met from its existing resources and facilities in the foreseeable future.

Capital Expenditure Commitments and Utilization

The total capital expenditure incurred by the Group and the Company amounted to approximately Rmb578.9 million and Rmb335.1 million during the Period, respectively. Approximately 89.0% of the Group's total capital expenditure was applied toward the Widening Project.

As at June 30, 2005, the capital expenditure committed by the Group amounted to Rmb4,804.8 million, of which approximately Rmb3,108.4 million will be applied toward the Widening Project.

Contingent Liabilities and Pledge of Assets

As at June 30, 2005, the Group did not have any contingent liabilities nor any pledge of assets (December 31, 2004: nil).

Foreign Exchange Exposure

Except for a World Bank loan of approximately Rmb776.3 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.

The recent change in the Renminbi's exchange rate regime against the US dollar would be beneficial to the Group in relation to its repayment of the World Bank loan, though the impact is not significant. 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.

Outlook

After more than ten years of rapid development, the Zhejiang provincial economy is currently undergoing structural adjustments as well as experiencing a slowdown in the investment growth rate. The GDP growth rate in Zhejiang Province is anticipated to slow down further in the second half of the year from the 12.0% reported in the first half, though not expected to slide into a single-digit growth.

While traffic volume growth rates on the two expressways operated by the Group averaged between 7.2% to 9.5% in the first half of the year, the growth rates were in a decreasing trend and are expected to be lower in the second half of the year.

Since the measures to tackle the practice of overloading trucks were initiated in mid-June 2004, changes in traffic mix has been taking place, leading to higher growth rates for heavy trucks. The resulted higher growth rates in toll income compared with traffic volume ranged roughly between 3 to 7 percentage points in the first half of 2005. However, such additional growth is expected to diminish as we enter the second half of the year, bringing toll income growth rates more in line with traffic volume growth rates.

Nevertheless, growth in both traffic volume and toll income on the expressways operated by the Group is anticipated to continue during the second half of the year, albeit at more moderate rates compared to the past few years.

Travel conditions on the Shanghai-Hangzhou-Ningbo Expressway are expected to improve significantly upon full completion of the Phase II (the section between Hangzhou and Shanghai) of the Widening Project by the end of the year, thereby providing further impetus for continued growth in traffic volume as we enter 2006.

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, 2005, the interests of the Directors', Supervisors' and chief executive's in the share capital of the Company's associated corporations (within the meaning of Part XV of the 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	Interest	Contribution of registered capital (Rmb)	Nature of interest	Percentage of the associated corporation's registered capital
Mr. Geng Xiaoping	Chairman	Equity interest	2,400,000	Directly beneficially owned	3.00
Mr. Fang Yunti	Director/General manager	Same as above	1,920,000	Same as above	2.40
Mr. Zhang Jingzhong	Director	Same as above	550,000	Same as above	0.69
Mr. Xuan Daoguang	Director	Same as above	1,100,000	Same as above	1.38
Mr. Fang Zhexing	Supervisor	Same as above	700,000	Same as above	0.88

Save as disclosed above, as at June 30, 2005, 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.

Disclosure of Interests and Other Matters

Other Interests Discloseable under the SFO

As at June 30, 2005, 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 Asia Ltd.	206,029,000	14.37%
Mondrian Investment Partners Ltd.	100,776,000	7.03%
Sumitomo Mitsui Asset Management Co., Ltd.	99,642,000	6.95%
The Capital Group Companies, Inc.	84,692,000	5.91%
JP Morgan Chase & Co.	76,515,113	5.34%

Save as disclosed above, as at June 30, 2005, 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 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 of Hong Kong Limited 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 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.

Appreciations

As we are close to the completion of Phase II of the Widening Project (the section between Hangzhou and Shanghai), I would like to take this opportunity to thank our staff who have been working tirelessly on the Widening Project.

By order of the Board
GENG Xiaoping
Chairman

Hangzhou, the PRC, August 15, 2005

Consolidated Income Statement (Unaudited)

	Notes	For the six months ended June 30,	
		2005 Rmb'000	2004 Rmb'000 (Re-stated)
Turnover	4	1,673,912	1,474,367
Operating costs		(507,586)	(438,226)
Gross profit		1,166,326	1,036,141
Other revenue	5	62,221	(6,361)
Administrative expenses		(34,972)	(46,759)
Other operating expenses		(10,015)	(15,255)
Profit from operating activities	6	1,183,560	967,766
Finance costs		(46,480)	(56,009)
Share of profit of associates	7	3,497	6,851
Share of profit of a jointly controlled entity	7	10,677	10,205
Profit before tax		1,151,254	928,813
Income tax expense	8	(373,003)	(263,922)
Profit for the Period		778,251	664,891
Attributable to:			
Equity holders of the Company		711,457	602,410
Minority interests		66,794	62,481
Dividends			
Proposed interim	9	304,018	173,725
Earnings per share	10	16.38 cents	13.87 cents

Consolidated Balance Sheet

	Notes	As at June 30, 2005 Rmb'000 Unaudited	As at December 31, 2004 Rmb'000 Audited (Re-stated)
ASSETS			
Non-current assets			
Fixed assets	11	12,975,037	12,564,936
Interest in a jointly controlled entity		82,219	79,812
Interests in associates		219,127	176,744
Expressway operating rights		192,895	197,245
Prepaid lease payment		396,884	405,830
Available-for-sale financial assets		1,000	1,000
Goodwill		85,472	85,472
Deferred tax assets	16	38,319	38,319
		13,990,953	13,549,358
Current assets			
Prepaid lease payment		17,893	17,893
Investments in securities		629,720	676,447
Inventories		7,235	6,416
Trade receivables	12	29,605	26,569
Other receivables	13	435,367	381,017
Cash and cash equivalents		763,326	803,739
		1,883,146	1,912,081
Total assets		15,874,099	15,461,439

Consolidated Balance Sheet

	Notes	As at June 30, 2005 Rmb'000 Unaudited	As at December 31, 2004 Rmb'000 Audited (Re-stated)
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the Company			
Share capital		4,343,115	4,343,115
Share premium and reserves	17	6,133,068	5,725,629
Proposed dividends		304,018	651,467
		10,780,201	10,720,211
Minority interests		1,100,581	1,092,295
Total equity		11,880,782	11,812,506
Non-current liabilities			
Interest-bearing bank and other borrowings		623,620	655,570
Long-term bonds		1,000,000	1,000,000
Deferred tax liabilities	16	428,775	384,577
		2,052,395	2,040,147
Current liabilities			
Trade payables	14	375,472	297,213
Profits tax payable		237,163	185,482
Other taxes payable		23,699	24,343
Other payables and accruals	15	289,316	294,786
Interest-bearing bank and other borrowings		1,015,272	787,892
Dividend payable		-	19,070
		1,940,922	1,608,786
Total liabilities		3,993,317	3,648,933
Total equity and liabilities		15,874,099	15,461,439

Condensed Consolidated Summary Statement of Changes in Equity (Unaudited)

	Attributable to equity holders of the parent			Minority interest	Total equity
	Share capital	Reserves	Total		
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Balance at January 1, 2004	4,343,115	5,802,864	10,145,979	–	10,145,979
Effects of changes in accounting policy	–	–	–	1,012,417	1,012,417
Restated balance	4,343,115	5,802,864	10,145,979	1,012,417	11,158,396
Profit for the six months ended June 30, 2004	–	602,410	602,410	62,481	664,891
Dividends	–	(477,743)	(477,743)	–	(477,743)
Dividends paid for minority shareholders	–	–	–	(17,784)	(17,784)
Balance at June 30, 2004	4,343,115	5,927,531	10,270,646	1,057,114	11,327,760
Balance at January 1, 2005	4,343,115	6,377,096	10,720,211	–	10,720,211
Effects of changes in accounting policy	–	–	–	1,092,295	1,092,295
Restated balance	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	–	(651,467)	(651,467)	–	(651,467)
Dividends paid for minority shareholders	–	–	–	(58,508)	(58,508)
Balance at June 30, 2005	4,343,115	6,437,086	10,780,201	1,100,581	11,880,782

Condensed Consolidated Cash Flow Statement (Unaudited)

	For the six months ended June 30,	
	2005 Rmb'000	2004 Rmb'000
Net cash inflow from operating activities	1,062,307	1,030,302
Net cash inflow from investing activities	(579,565)	(359,132)
Net cash inflow from financing activities	(533,615)	(809,697)
Increase in cash and cash equivalents	(50,873)	(138,527)
Cash and cash equivalents at the beginning of the Period	721,999	567,195
Cash and cash equivalents at the end of the Period	671,126	428,668
Analysis of cash and cash equivalents		
Cash and bank balances	548,245	373,235
Time deposits with original maturity of less than 3 months	122,881	55,433
	671,126	428,668

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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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, 2004 except as described below.

During the Period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that became effective for accounting periods beginning on or after January 1, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates and jointly controlled entities has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the Period or prior accounting periods are prepared and presented:

(a) Business Combinations

During the Period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after January 1, 2005. The principle effects of the application of HKFRS 3 to the Group are summarized below:

Goodwill

Prior to January 1, 2005, goodwill arising on acquisitions was capitalized and amortised over its estimated useful life. With respect to goodwill previously capitalized on the balance sheet, the Group has discontinued amortising such goodwill from January 1, 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisition after January 1, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged during the Period. Comparative figures for 2004 have not been re-stated.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Interests in Jointly Controlled Entities

Prior to January 1, 2005, interests in jointly controlled entities were accounted for using the equity method. HKAS 31 "Interests in jointly controlled entities" allows entities to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to continue using the equity method to account for its interest in jointly controlled entities.

(c) Leasehold Land

Prior to January 1, 2005, leasehold land was included in fixed assets and its amortization was provided on a straight-line basis to write off the cost of the leasehold land over the lease term. During the Period, the Group has applied HKAS 17 "Lease". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the Group has reclassified leasehold land from fixed assets to prepaid lease payments under operation leases, which are carried at cost and amortized over the lease term. Comparative figures have been re-stated. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold land continues to be accounted for as fixed assets.

(d) Financial Instruments

During the Period, the Group has applied HKAS 32 "Financial instruments: disclosure and presentation" and HKAS 39 "Financial instruments: recognition and measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after January 1, 2005, generally does not permit to recognize, derecognize or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarized below:

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Financial Instruments (Continued)

Classification and measurement of financial assets and financial liabilities:

Prior to January 1, 2005, the Group classified and measured its debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "trading securities", "non-trading securities" or "held-to-maturity investments" as appropriate. Both "trading securities" and "non-trading securities" are measured at fair value. Unrealised gains or losses of "trading securities" are reported in the profit or loss for the period in which gains or losses arise. Unrealised gains or losses of "non-trading securities" are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gains or losses previously recognised in equity is included in the net profit or loss for that period. From January 1, 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On January 1, 2005, the Group reclassified its "long term investments" and "short term investments" as "available-for-sale financial assets" and "investment in securities", respectively, to conform to the requirements of HKAS 39. No adjustment to the previous carrying amounts of assets and liabilities at January 1, 2005 has been made to the Group's retained earnings.

3 SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the Period and the same period in 2004 are as follows:

	For the six months ended June 30,	
	2005	2004
	Rmb'000	Rmb'000
Decrease in amortisation of goodwill	6,123	–
Increase in profit	6,123	–

3 SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The cumulative effects of the application of the new HKFRSs as at December 31, 2004 and January 1, 2005 are summarized below:

	As at December 31, 2004 Rmb'000 (Originally stated)	Adjustment Rmb'000	As at December 31, 2004 Rmb'000 (Re-stated)	Adjustment Rmb'000	As at January 1, 2005 Rmb'000 (Re-stated)
Balance sheet items					
Fixed assets	12,988,659	(423,723)	12,564,936	–	12,564,936
Prepaid lease payments	–	423,723	423,723	–	423,723
Total effects on assets and liabilities	12,988,659	–	12,988,659	–	12,988,659
Minority interests	–	1,092,295	1,092,295	–	1,092,295
Total effects on equity	–	1,092,295	1,092,295	–	1,092,295
Minority interests	1,092,295	(1,092,295)	–	–	–
	1,092,295	(1,092,295)	–	–	–

The financial effects of the application of the new HKFRSs to the Group's equity as at January 1, 2004 are summarized below:

	As originally stated Rmb'000	Adjustment Rmb'000	As re-stated Rmb'000
Minority interests	–	1,012,417	1,012,417
Total effects on equity	–	1,012,417	1,012,417

4 TURNOVER AND SEGMENT INFORMATION

During the Period, the principal activities of the Group did not change. The operating results by principal activities are summarized as follows:

	For the six months ended June 30,			
	2005		2004	
	Turnover	Profit		
	Rmb'000	Contribution	Turnover	Contribution
	Unaudited	Rmb'000	Rmb'000	Rmb'000
		Unaudited	Unaudited	Unaudited
				(Re-stated)
Segment by business activities				
- Toll	1,537,003	1,142,282	1,376,019	1,005,821
- Service areas	114,449	10,418	79,921	20,099
- Advertising	22,460	13,626	18,427	10,221
	1,673,912	1,166,326	<u>1,474,367</u>	<u>1,036,141</u>
Other revenue		62,221		(6,361)
Administrative expenses		(34,972)		(46,759)
Other operating expenses		(10,015)		(15,255)
Profit from operating activities		1,183,560		<u>967,766</u>

No further analysis of the turnover and profit from operating activities by geographical segment was prepared as the turnover and profit from operating activities of the Group were all generated from Zhejiang Province, the PRC, during the Period.

5 OTHER REVENUE

	For the six months ended June 30,	
	2005 Rmb'000 Unaudited	2004 Rmb'000 Unaudited
Profit/(loss) from short term securities investment	20,275	(36,648)
Interest income	12,901	5,295
Rental income	13,348	10,629
Trailer income	9,578	8,719
Exchange (loss)/gain	(778)	137
Other miscellaneous income	6,897	5,507
Total	62,221	(6,361)

6 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,	
	2005 Rmb'000 Unaudited	2004 Rmb'000 Unaudited (Re-stated)
Depreciation	129,331	130,921
Amortization of expressway operating rights	4,350	4,350
Amortization of goodwill	–	6,126
Amortization of prepaid lease payment	8,946	8,800
Staff costs	43,762	44,035

7 SHARE OF PROFIT OF ASSOCIATES AND A JOINTLY CONTROLLED ENTITY

	Associates		Jointly controlled entity	
	For the six months ended June 30,		For the six months ended June 30,	
	2005 Rmb'000 Unaudited	2004 Rmb'000 Unaudited	2005 Rmb'000 Unaudited	2004 Rmb'000 Unaudited
Profit before tax	4,888	8,940	15,936	11,089
Tax charge for the period	(1,391)	(2,089)	(5,259)	(884)
Profit after tax	3,497	6,851	10,677	10,205

8 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.

According to the requirements of new HKFRSs, the presentation of share of tax of associates and jointly controlled entities has been changed. The changes in presentation have been applied retrospectively.

	For the six months ended June 30,	
	2005	2004
	Rmb'000	Rmb'000
	Unaudited	Unaudited (Re-stated)
Group		
Tax charged	328,805	270,078
Tax refunded	–	(34,360)
Deferred	44,198	28,204
Tax charge for the Period	373,003	263,922

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,	
	2005	2004
	Rmb'000	Rmb'000
	Unaudited	Unaudited (Re-stated)
Group		
Profit before tax	1,137,080	911,757
Tax at the statutory tax rate of 33%	375,236	300,880
Tax refunded	–	(34,360)
Tax effect of net (income)/expense that is not (taxable)/deductible in determining taxable profit	(2,233)	(2,598)
Tax charge at the Group's effective tax rate	373,003	263,922

9 DIVIDENDS

The Directors have recommended the payment of an interim dividend of Rmb7.0 cents (approximately HK6.6 cents) per share (2004 Interim: Rmb4.0 cents), subject to the approval of the shareholders at the Company's proposed extraordinary general meeting to be held on October 31, 2005. The recommendation has been set out in the financial statements.

10 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders of the Company for the Period of Rmb711,457,000 (2004: Rmb602,410,000) and the 4,343,114,500 shares (2004: 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.

11 FIXED ASSETS

Except that the leasehold land of Rmb423,723,000, which was included in fixed asset prior to January 1, 2005, was reclassified from fixed assets to prepaid lease payments under operation leases, there were no other significant changes to the Group's fixed assets during the Period.

12 TRADE RECEIVABLES

The aging analysis of trade receivables as at June 30, 2005 and the comparative figures as at December 31, 2004 are as follows:

	As at June 30, 2005 Rmb'000 Unaudited	As at December 31, 2004 Rmb'000 Audited
Within 1 year	25,582	25,636
1 to 2 years	3,090	933
Over 2 years	933	-
Total	29,605	26,569

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

13 OTHER RECEIVABLES

	As at June 30, 2005 Rmb'000 Unaudited	As at December 31, 2004 Rmb'000 Audited
Prepayments	39,907	26,989
Entrusted loan to a related party	376,000	260,000
Entrusted loan to a third party	–	10,000
Deposits and other debtors	19,460	84,028
Total	435,367	381,017

14 TRADE PAYABLES

The aging analysis of trade payables as at June 30, 2005 and the comparative figures as at December 31, 2004 are as follows:

	As at June 30, 2005 Rmb'000 Unaudited	As at December 31, 2004 Rmb'000 Audited
Within 1 year	347,950	262,085
1 to 2 years	26,692	10,037
2 to 3 years	731	20,930
Over 3 years	99	4,161
Total	375,472	297,213

15 OTHER PAYABLES AND ACCRUALS

	As at June 30, 2005 Rmb'000 Unaudited	As at December 31, 2004 Rmb'000 Audited
Accruals	51,670	82,022
Other liabilities	222,896	198,014
Amounts due to related parties	12,151	12,151
Amounts due to the holding company	2,599	2,599
Total	289,316	294,786

16 DEFERRED TAX

	As at June 30, 2005 Rmb'000 Unaudited	As at December 31, 2004 Rmb'000 Audited
Deferred tax liabilities		
At beginning of period/year	384,577	325,703
Expense/(Income) for the period/year	44,198	58,874
At end of period/year	428,775	384,577
Analysed by principal components		
Revaluation on marketable securities at market price of the end of period/year	2,343	(4,210)
Temporary differences resulting from depreciation method	426,432	388,787
	428,775	384,577
Deferred tax assets		
At beginning of period/year	38,319	–
Expense/(Income) for the period/year	–	38,319
At end of period/year	38,319	38,319
Analysed by principal components		
Non-deductible disposal of fixed assets	38,319	38,319
	38,319	38,319

17 RESERVES

	For the six months ended June 30, 2005					
	Share premium account Rmb'000	Goodwill reserve Rmb'000	Statutory surplus reserve Rmb'000	Public welfare fund Rmb'000	Retained profits Rmb'000	Total Rmb'000
As at January 1, 2005	3,645,726	(352,860)	892,951	431,448	1,108,364	5,725,629
Net profit for the Period	-	-	-	-	711,457	711,457
Proposed interim dividend	-	-	-	-	(304,018)	(304,018)
As at June 30, 2005	3,645,726	(352,860)	892,951	431,448	1,515,803	6,133,068

	For the six months ended June 30, 2004					
	Share premium account Rmb'000	Goodwill reserve Rmb'000	Statutory Surplus reserve Rmb'000	Public welfare fund Rmb'000	Retained profits Rmb'000	Total Rmb'000
As at January 1, 2004	3,645,726	(352,860)	710,497	340,221	981,537	5,325,121
Net profit for the Period	-	-	-	-	602,410	602,410
Proposed interim dividend	-	-	-	-	(173,725)	(173,725)
As at June 30, 2004	3,645,726	(352,860)	710,497	340,221	1,410,222	5,753,806

18 COMMITMENTS

	As at June 30, 2005		
	Commitments Rmb million	Utilization Rmb million	Balance Rmb million
Shanghai-Hangzhou-Ningbo expressway widening project			
From Dajing to Fengjing	2,508	1,215	1,293
From Guzhu to Dazhujia	2,300	485	1,815
Acquisition of additional 18.4% equity interest in Zhejiang Shangsans Expressway Co., Ltd.	485	-	485
Renovation of service area	1	1	-
Decoration of office	5	4	1
Remaining construction works of the Shangsans Expressway	48	-	48
Purchase of machinery	72	20	52
Jiashao Expressway Project	1,145	35	1,110
Total	6,564	1,760	4,804

19 RELATED PARTY TRANSACTIONS

The following is a summary of related party transactions carried out in the ordinary course of business between the Company, its subsidiaries during the Period.

- (a) On August 16, 2004, the board of directors resolved that the Company entered into two guarantees to be dated August 18, 2004 in favour of two independent financial institutions in the PRC, namely, Industrial and Commercial Bank of China (Zhejiang Province Branch) and Shanghai Pudong Development Bank, in respect of loan facilities with a principal amount of Rmb280,000,000 and Rmb80,000,000, respectively, granted to Zhejiang Shangsans Expressway Co., Ltd. ("Shangsans Co") under the respective Facility Agreements.

The purpose of the facilities under the Facility Agreements is to re-finance the existing bank term loans of Shangsans Co of Rmb360,000,000 in total and with similar interest rates and maturity periods of the new facilities under the Facility Agreements.

The loans under the Facility Agreements are unsecured and the interest rates will be subject to the rates applicable to loans with maturity periods within one year as announced by the Bank of China from time to time. Each guarantee shall take effect until the expiration of two years from the repayment date of each loan to be drawn down under the respective Facility Agreement. No consideration is receivable by the Company for the provision of the financial assistance under each guarantee.

Shangsans Co is a connected person of the Company as Huajian Transportation Economic Development Center, a substantial shareholder of the Company, owns more than 10% equity interest in Shangsans Co, which is also owned as to 73.625% by the Company.

As at June 30, 2005, the amount of the above loan facilities utilised by Shangsans Co was Rmb150,000,000.

- (b) On October 25, 2004, the Company entered into a loan agreement with Zhejiang Jinji Property Co., Ltd. ("Jinji Co"), a subsidiary of Zhejiang Communications Investment Group Co., Ltd. ("Communication Group"), through Communication Bank of China (the "Bank"), whereby the Company agreed to provide Jinji Co a loan through the Bank with a principal amount of Rmb260,000,000 at an annual interest rate of 6.31% and with a term of one year.

The loan is being provided to Jinji Co for use as general working capital. Jinji Co is a connected person of the Company as it is a 90% subsidiary of Communication Group, which in turn is a substantial shareholder of the Company, holding approximately 56% of the shares in the Company.

Communication Group has provided a guarantee in favour of the Company and the Bank in respect of the obligations of Jinji Co in the loan agreement.

19 RELATED PARTY TRANSACTIONS (Continued)

- (c) The Group entered into several rental agreements with Zhejiang Expressway Petroleum Development Co., Ltd. ("Petroleum Co"), an associate of the Company. Pursuant to the aforementioned agreements, the Group leased five oil stations to Petroleum Co. In 2005, the Group recorded a total rental income of Rmb4,450,000 from Petroleum Co (2004: Rmb4,450,000). The rental income was based on negotiations between the Group and Petroleum Co.
- (d) Zhejiang Expressway Investment Development Co., Ltd. ("Development Co"), a 51% owned subsidiary of the Company, entered into loan agreements with Zhejiang Concord Property Investment Co., Ltd. (a 45% owned associate of Development Co) on January 6, 2005 and February 1, 2005, respectively, through China Everbright Bank ("Everbright Bank"), whereby the Development Co agreed to provide Zhejiang Concord Property Investment Co., Ltd. loans through Everbright Bank with a principal amount of Rmb 46,000,000 and Rmb 70,000,000, respectively. The annual interest rates of the aforementioned loans are both 10%, with a term of one year.

20 POST BALANCE SHEET EVENTS

On July 6, 2005, the Company's Rmb1 billion corporate bonds were approved listing by Shanghai Stock Exchange and started listing in Shanghai Stock Exchange on August 12, 2005.

21 CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at June 30, 2005, the Group did not have any contingent liabilities nor any pledge of assets.

22 COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the Period's presentation.

23 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on August 15, 2005.

Corporate Information

EXECUTIVE DIRECTORS

Geng Xiaoping
Fang Yunti
Zhang Jingzhong
Xuan Daoguang

NON-EXECUTIVE DIRECTORS

Zhang Luyun
Zhang Yang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Tung Chee Chen
Zhang Junsheng
Zhang Liping

SUPERVISORS

Ma Kehua
Fang Zhexing
Sun Xiaoxia
Zheng Qihua
Jiang Shaozhong

COMPANY SECRETARY

Zhang Jingzhong

AUTHORISED REPRESENTATIVES

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Zhang Jingzhong

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China Construction Bank, Zhejiang Branch
Shanghai Pudong Development Bank,
Hangzhou Branch

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H SHARES LISTING INFORMATION

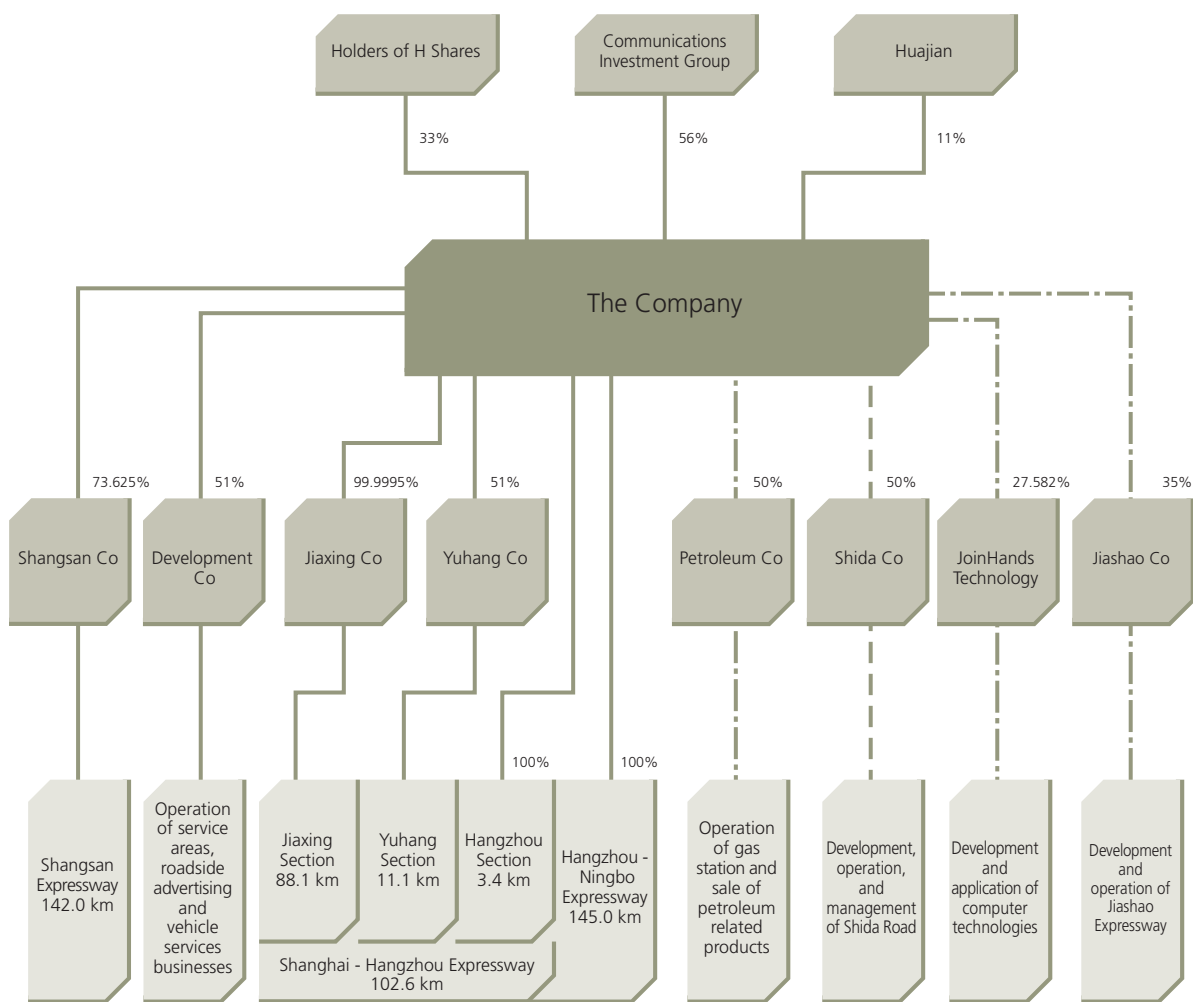
The Stock Exchange of Hong Kong Limited
Code: 0576

London Stock Exchange plc
Code: ZHEH

ADRS INFORMATION

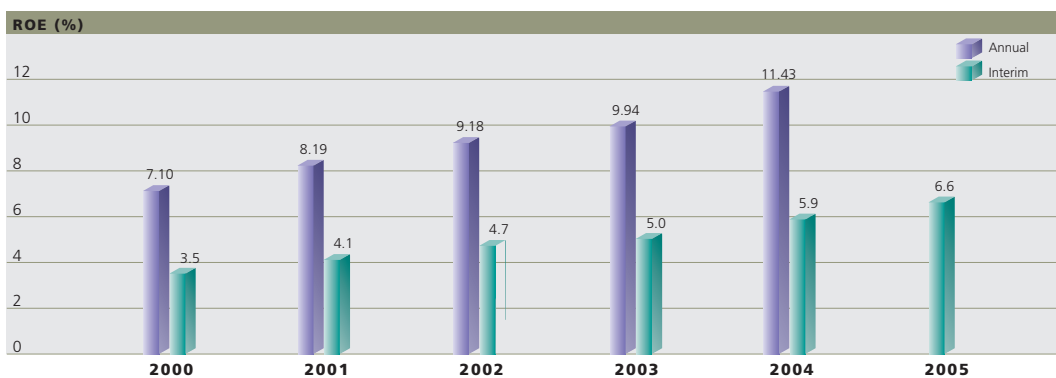
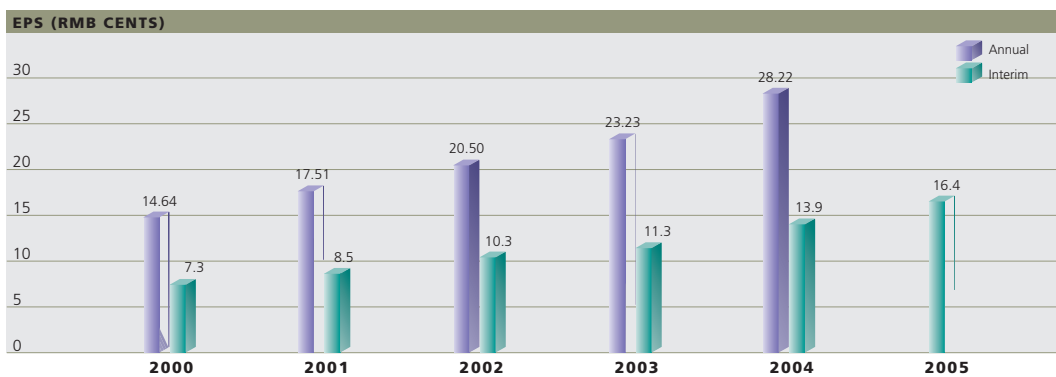
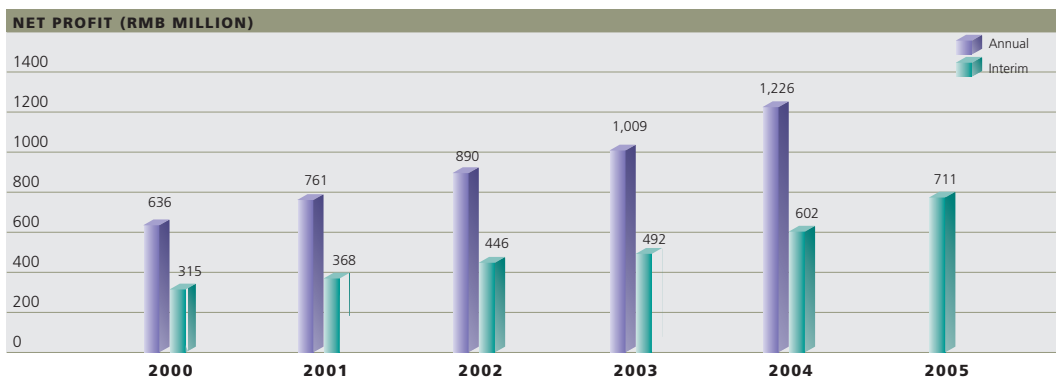
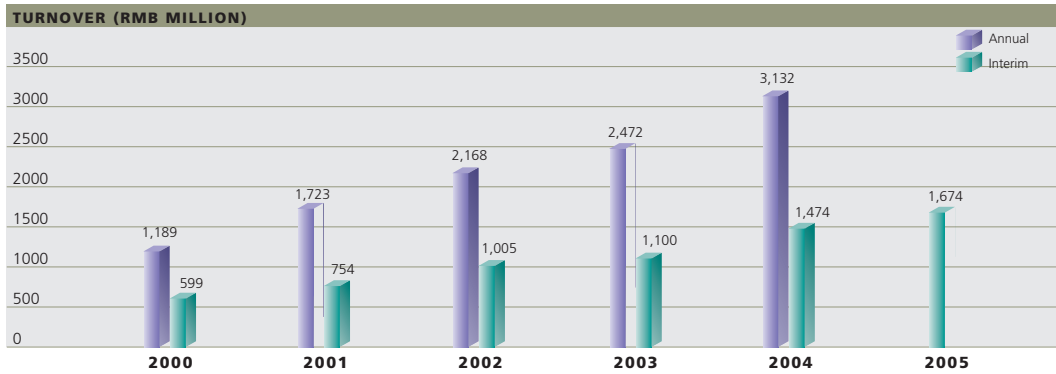
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Symbol: ZHEXY
CUSIP: 98951A100
ADR: H Shares 1:30

Corporate Structure of the Group



— subsidiary
 - - - associate
 - - - jointly-controlled entity

Financial Highlights



Location Map of Expressways Operated by the Group



Location Map of Expressways Operated by the Group

