



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.***

2004 INTERIM REPORT

## ***Creating Value through Service Excellence.***

---

Ever since its establishment, Zhejiang Expressway has never departed from the conviction that it operates a people business. We put relentless efforts in continuously enhancing the facilities of our expressways and their ancillary services, with a view to creating comfortable, safe and highly efficient travel conditions to our expressway users. We have the conviction that only through providing high-quality services to satisfy our expressway users' needs will we be able to ensure continued growth of our business, thereby creating maximum value for our shareholders.

At Zhejiang Expressway, the management and staff share the same value: **Service** is our mission, **Excellence** is our standard. Together, we work toward **Creating Value** for our expressway users, our business partners, our shareholders and our community.

<b>2</b>	2004 Interim Results
<b>3</b>	Business Review
<b>5</b>	Financial Analysis
<b>9</b>	Outlook
<b>10</b>	Disclosure of Interests and Other Matters
<b>12</b>	Consolidated Income Statement
<b>13</b>	Consolidated Balance Sheet
<b>14</b>	Condensed Consolidated Summary Statement of Changes in Equity
<b>15</b>	Condensed Consolidated Cash Flow Statement
<b>16</b>	Notes to Condensed Financial Statements
Appendices	
<b>24</b>	Corporate Information
<b>26</b>	Corporate Structure of the Group
<b>27</b>	Financial Highlights
<b>29</b>	Location Map of Expressways Operated by the Group

The directors (the "Directors") of Zhejiang Expressway Co., Ltd. (the "Company") are pleased to announce the unaudited consolidated operating results of the Company and its subsidiaries (collectively the "Group") for the six months ended June 30, 2004 (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 below.

During the Period, the Group benefited from the continuing strong economic expansion of the Yangtze River Delta Region, and achieved robust business growth, a growth that was further amplified by a lower-than-usual comparison basis of the same period in 2003. Turnover for the Group grew by 34.0% to Rmb1,474.4 million while net profit from ordinary activities attributable to shareholders increased by 22.4% to Rmb602.4 million. Earnings per share for the Period was Rmb13.87 cents, representing an increase of 22.4% over the same period in 2003.

The Directors have recommended the payment of an interim dividend of Rmb4.0 cents per share in respect of the Period (same period in 2003: Rmb4.0 cents per share), subject to shareholders' approval at the extraordinary general meeting of the Company to be held on October 12, 2004.

During the Period, both the core business of toll road operations and other businesses of toll road-related operations underwent substantial growth, a growth fueled by an estimated year-on-year GDP growth rate of 15.5% in Zhejiang Province where all of the Group's business operations are carried out.

Compared to the same period in 2003, overall turnover grew 34.0% to Rmb1,474.4 million during the Period, of which turnover attributable to toll road operations grew 32.3% while turnover attributable to toll road-related business operations grew at an extraordinary rate of 65.0%, reflecting a higher rate of growth in demand for ancillary services along the expressways operated by the Group.

### **Toll Road Operations**

Shanghai-Hangzhou-Ningbo Expressway remained the major revenue generator of the Group during the Period, contributing to approximately 76.2% of the Group's total toll income. Traffic volume on the expressway grew 31.2% year-on-year, averaging 32,926 full-trip equivalents per day, while toll income grew 29.8%, totaling approximately Rmb1,106.1 million.

Phase I of the project to widen the Shanghai-Hangzhou-Ningbo Expressway from four lanes to eight lanes (the "Widening Project") was completed in December 2003. This had substantially improved traveling conditions along the 44km section between Hongken and Guzhu, allowing higher average travel speed and less congestion, in addition to increasing the vehicle handling capacity of the widened section from 55,000 passenger-car-units ("pcu") per day to 100,000 pcu per day.

As a newer expressway in terms of operation history, Shangsang Expressway continued to enjoy a higher growth rate than the Shanghai-Hangzhou-Ningbo Expressway in traffic volume and toll income, increasing its share of contribution to the Group's total toll income from 22.4% in 2003 to 23.8% during the Period. During the Period, traffic volume on the expressway grew 40.3% year-on-year to an average of 18,987 full-trip equivalents per day, and toll income grew 41.0%, totaling approximately Rmb345.9 million.

Large-scale maintenance works on the Shanghai-Hangzhou-Ningbo Expressway, including the road surface-overlaying project that started in 2002, was drawing to a conclusion for the most part during the first half of this year. While some of these maintenance works have inevitably brought inconvenience to expressway travelers at times, the overall impact on the normal traffic flow has been limited as a result of the successful implementation of extensive site management measures.

### **Toll Road-Related Business Operations**

Established in May 2003, Zhejiang Expressway Investment Development Co., Ltd. ("Development Co"), a 51% owned subsidiary of the Company, is engaged in the operation of service areas where facilities such as restaurants, gas stations and shops are made available to travelers, as well as roadside advertising and vehicle servicing businesses, along the two expressways operated by the Group.

The strong growth in traffic volume on the two expressways was accompanied by tremendous increase in demand for ancillary services, leading to substantial expansion in the relevant business operations during the Period. Turnover attributable to service areas and roadside advertising operations grew 70.5% and 44.9%, respectively, compared to the same period in 2003 on a pro forma basis. Net profit realized by Development Co was approximately Rmb13.7 million during the Period, representing a pro forma increase of 43.5% compared to the same period in 2003.

To further explore roadside advertising businesses opportunities along other operational expressways within Zhejiang Province, a new subsidiary company named Hangzhou Lutong Advertising Co., Ltd. was established under Development Co on July 27, 2004, with Development Co holding 51% equity interest. Registered capital for the new advertising company is Rmb3 million.

### Long-term Investments

The Company also had a number of long-term investments that included a 50% interest in Hangzhou Shida Highway Co., Ltd. ("Shida Co"), a jointly-controlled entity that operates the 9.45km Shida Road; a 50% interest in Zhejiang Expressway Petroleum Development Co., Ltd. ("Petroleum Co"), an associate company that operates retail and wholesale petroleum products throughout Zhejiang Province; and a 27.58% interest in JoinHands Technology Co., Ltd. ("JoinHands Technology"), a computer software and hardware company.

Owing to continued enhancement to the expressway network around Hangzhou City, Shida Road had seen its traffic volume grow 72.2% and toll income grow 71.6% during the Period, compared to the same period in 2003. Net profit achieved by Shida Co was approximately Rmb20.4 million, representing an increase of 205.0% over the same period in 2003.

Faced with oil supply shortages in China and rise in global oil prices, Petroleum Co capitalized on its strong retail presence in key locations within Zhejiang Province and expanded its turnover by 26.1% during the Period, while increasing its net profit by 81.4% to Rmb14.3 million compared to the same period in 2003.

During the Period, sales of computer networking equipments by JoinHands Technology continued to slide due to market saturation, while additional efforts were made in expanding its fledgling digital printing business and developing a new technology software park located in Hangzhou High-tech Industrial Development Zone. With a decrease of 38.5% in turnover, JoinHands Technology recorded a loss of approximately Rmb1.2 million during the Period.

Into second half of the year, while growth momentum at Shida Co is expected to be maintained, and business performance of Petroleum Co to remain steady, prospects for JoinHands Technology is not expected to change in the near term.

### Human Resources

A main objective of the Company's human resources strategy is to build a team that is highly professional, with leading qualifications in the toll road industry across all levels. Since the beginning of this year, further emphasis has been placed on attracting and retaining professional talents whose qualifications are crucial to our business operations.

Other than the above, there were no significant changes to the Company's overall number of employees, the remuneration policies, bonus schemes and training schemes since December 31, 2003 as disclosed in its latest annual report.

During the Period, the Group was able to maintain a high rate of growth in operating results, with sound financial position and steady growth in cash flow from operating activities.

For the six months ended June 30, 2004, the Group recorded turnover of Rmb1,474.4 million and profit attributable to shareholders of Rmb602.4 million, representing increases of 34.0% and 22.4%, respectively, over the same period last year. Earnings per share increased by 22.4% to Rmb13.87 cents.

### Borrowings and Debt Repayment Ability

#### *Interest-bearing Borrowings*

As at June 30, 2004, the Group's interest-bearing borrowings was Rmb2,447.2 million in aggregate, representing a decrease of Rmb273.0 million from that in the beginning of the Period. Of the total interest-bearing borrowings, short-term interest-bearing borrowings and long-term interest-bearing borrowings amounted to Rmb726.0 million and Rmb1,721.2 million respectively, representing decreases of 25.6% and 1.3% from that in the beginning of the Period. Details are as follows:

	Gross amount	Maturity profiles		
		Within 1 year	2-5 years inclusive	Beyond 5 years
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
<b>Floating rate</b>				
World Bank loan	824,610	127,950	341,191	355,469
<b>Fixed rate</b>				
Commercial bank loans	550,000	550,000	—	—
Corporate bonds	1,000,000	—	—	1,000,000
Government loans	72,600	48,000	24,020	580
Total as at June 30, 2004	<u>2,447,210</u>	<u>725,950</u>	<u>365,211</u>	<u>1,356,049</u>
Total as at December 31, 2003	<u>2,720,126</u>	<u>975,950</u>	<u>365,211</u>	<u>1,378,965</u>

The Group's finance costs decreased by 15.8% during the Period to Rmb56.0 million. The decrease was mainly attributable to the further reduction in the borrowings from domestic commercial banks by the Company and its subsidiary, Shangsang Co. At the end of the Period, the Group's borrowings from domestic commercial banks decreased from Rmb1,170 million at the end of the same period last year to Rmb550 million.

During the Period, the coupon rate of the corporate bonds issued by the Company was 4.29% per annum, with interests payable once a year. Interest rates of the Group's semi-annual and annual borrowings from domestic commercial banks in Renminbi were 4.536% and 5.045%, respectively, during the Period, whereas the effective interest rate of US Dollar loans extended by the World Bank was 4.85%. Interest rate of government loans in Renminbi was the same as that applicable on December 31, 2003.

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

#### *Asset-liability Ratio*

As at June 30, 2004, the Group's asset-liability ratio was 24.8%, representing a decrease from 26.0% at the end of 2003. The continuous decrease in asset-liability ratio during recent years has provided ample room for debt financing. Subject to the macroeconomic control measures introduced by the PRC government during the first half of the year, the banks implemented more stringent controls over credit facilities, which has enhanced the Group's comparative advantage in obtaining debt financing.

#### *Liability to Equity Ratio*

Liability to equity ratio is also known as gearing ratio, which reflects the Group's solvency in the context of capital structure.

As at June 30, 2004, shareholders' equity, fixed rate liabilities, floating rate liabilities and interest-free liabilities of the Group amounted to Rmb10,270.6 million, Rmb1,622.6 million, Rmb824.6 million and Rmb2,345.2 million respectively, representing 68.2%, 10.8%, 5.5% and 15.5% to total assets of the Group. Gearing ratio (total liabilities over shareholders' equity) was 46.7% (December 31, 2003: 51.1%), which reflected a relatively reasonable debt capital structure and strong solvency of the Group.

#### *Interest Cover Ratio*

During the Period, with interest expenses at Rmb56.0 million (corresponding period in 2003: Rmb80.7 million, including capitalized interests of Rmb14.1 million), profit before interest and tax at approximately Rmb987.8 million, the Group's interest cover ratio (profit before interest and tax over interest expenses) was 17.6 (corresponding period in 2003: 10.2).



## Financial Resources and Liquidity

### Financial Resources

As at June 30, 2004, the Group had cash and cash equivalents of Rmb508.4 million in aggregate, time deposits of Rmb258.8 million and short-term investments of Rmb895.1 million, totaling Rmb1,662.3 million, representing a decrease of 13.6% compared with Rmb1,923.1 million at the end of 2003. Of which, short-term investments decreased by 18.9% compared with Rmb1,104.3 million at the end of 2003. Details are as follows:

	<b>As at June 30, 2004 Rmb'000</b>	As at December 31, 2003 Rmb'000
Cash and cash equivalents	<b>508,426</b>	567,195
Renminbi	<b>506,525</b>	565,251
US dollar equivalent	<b>1,640</b>	1,393
Euro equivalent	<b>141</b>	59
HK equivalent	<b>120</b>	492
Time deposits	<b>258,750</b>	251,600
Renminbi	<b>217,314</b>	251,598
US dollar equivalent	—	—
Euro equivalent	<b>41,436</b>	—
HK equivalent	—	2
Short term investments	<b>895,153</b>	1,104,266
Renminbi	<b>895,153</b>	1,104,266
Total	<b>1,662,329</b>	1,923,061
Renminbi	<b>1,618,992</b>	1,921,115
US dollar equivalent	<b>1,640</b>	1,393
Euro equivalent	<b>41,577</b>	59
HK equivalent	<b>120</b>	494

During the Period, among the Group's short-term investments, the amount held in treasury bonds fell by 23.6%. As at June 30, 2004, treasury bonds accounted for 86.7% of the Group's total investments whereas the remaining comprised mainly of close-ended securities investment funds.

During the Period, average annual interest rates of the Group's bank deposits in Renminbi, US Dollar, Euro and Hong Kong Dollar were similar to those at the end of year 2003.

### *Cash Flow and Liquidity*

The Group's ordinary operating activities generated strong and stable cash inflow. As at June 30, 2004, net cash flow from operating activities amounted to Rmb1,030.3 million.

As at June 30, 2004, the Group's current assets amounted to Rmb1,743.6 million in aggregate, of which account receivables, other receivables and inventories accounted for 4.7% (December 31, 2003: 3.8%). Current ratio (current assets over current liabilities) was 1.1, reflecting adequate working capital held by the Group.

Liquidity of the Group's assets was also reflected by "cash ratio", which is the ratio of cash asset (comprising cash, cash equivalents and time deposits and short-term investments) to current liabilities. As at June 30, 2004, cash ratio was 1.0, reflecting the Group's strong short-term solvency and relatively small risks in loss of realization.

In view of the above, the Directors believe that the Group has sufficient financial resources to meet its operational needs in the foreseeable future.

### **Capital Expenditure Commitments and Utilization**

As at December 31, 2003, capital expenditure committed by the Group was Rmb5,053.0 million. During the Period, Rmb408.0 million was utilized, of which Rmb390.0 million was used on the Widening Project.

As at June 30, 2004, capital expenditure committed by the Group was Rmb4,645.0 million, of which approximately Rmb4,052.0 million would be used on the Widening Project.

The above capital expenditures will be financed by the Group's internal financial resources, and any shortfall will be financed by other appropriate means, with a preference for debt financing.

### **Contingent Liabilities and Pledge of Assets**

Other than a loan guarantee of Rmb30.0 million provided in favor of Hangzhou Shida Highway Co., Ltd. ("Shida Co.," a jointly controlled entity, in respect of a commercial bank loan of the same amount extended to Shida Co from September 2001 to September 2009, the Group did not have any contingent liabilities as at June 30, 2004. In addition, the Group had no pledge of assets during the Period.

### **Foreign Exchange Exposure**

The Group has a World Bank loan of approximately Rmb824.6 million, denominated in US Dollars and borrowed for the construction of the Shanghai-Hangzhou-Ningbo Expressway. In addition, dividends for H shares payable by the Company are settled in HK dollars.

In view of the stable exchange rate between Renminbi and US dollars, the Directors do not foresee any material foreign exchange risk for the Group. However, there is no assurance that any foreign exchange exposure will not adversely affect the operating results of the Group in the future.

The macroeconomic controls that had taken place in the PRC during the Period are expected to have lasting impact well into the second half of this year. In Zhejiang Province, economic growth in the second half of the year is expected to slow down from the extraordinary 15.5% GDP growth rate attained in the first half. Latest forecasts on the annual GDP growth rate for the Province, however, remains at 14.0%, a rate that should continue to create strong demand for road transport in and around the Yangtze River Delta Region.

Since June 20, 2004, concerted efforts of the relevant authorities to crack down on overloading practices by trucks are already showing encouraging results. There may be additional corresponding measures to be carried out in the second half of this year, the immediate impact of which is difficult to predict, but we are confident that the stated goal of creating a safer, more orderly road transport system will be achieved, and that such prospects should be beneficial to toll road operators such as the Company in terms of increased truck traffic and reduced damage to roads and bridges.

The ongoing Phase II of the Widening Project has been progressing as planned, with completion date remaining unchanged around the end of 2005, though recent fluctuations in the prices of construction materials have led to a small increase in construction costs for the time being. Commencement of construction for Phase III, however, has been delayed due to a slowdown by the relevant authorities in granting land use rights, though it is not expected to adversely affect the normal operation of the Shanghai-Hangzhou-Ningbo Expressway.

Slower traffic volume growth is expected for the expressways operated by the Group for the second half of the year compared to the first half due to a number of short-term factors: anticipated slowdown in economic growth; uncertainties created by the efforts to stop overloading practices by trucks; short-term interferences from the ongoing Widening Project and road maintenance projects at certain sections of Shanghai-Hangzhou-Ningbo Expressway; and a higher basis of comparison during the same period last year. Despite the above, however, prospects for continued strong business growth for both the toll road operations and the toll road-related operations of the Group remain positive, as economic fundamentals of the Yangtze River Delta Region remain strong.

### Purchase, Sale and Redemption of the Company's Shares

Neither the Company nor its subsidiaries had 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 2004, the interests of the Directors, Supervisors and chief executive 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 were as follows:

Name	Position	Interest in Development Co	Contribution of registered capital (Rmb)	Nature of interest	Percentage of registered capital in Development Co
Mr. Geng Xiaoping	Chairman	Equity Interest	2,400,000	Directly beneficially owned	3.00
Mr. Fang Yunti	Director/ Chief executive	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, none of the Directors, Supervisors and chief executive had any interest or short position in the shares, underlying shares or debentures of the Company or any other associated corporations that was recorded in the registrar required to be kept 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 Companies, as at June 30, 2004.

### Other Interests Discloseable under the SFO

As at June 30, 2004, the following persons (other than the Directors, Supervisors and chief executive of the Company) had interests in the shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of 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.	159,881,000	11.15
J.P. Morgan Chase & Co.	96,596,700	6.74
The Capital Group Companies, Inc.	97,840,800	6.82
Sumitomo Mitsui Asset Management Co., Ltd.	86,784,000	6.05
State Street Corporation	83,303,500	5.81
Commonwealth Bank of Australia	71,093,000	4.96
Schroder Investment Management (S'pore) Limited	66,344,961	4.63



Save as disclosed above, no other person had any interests or short positions (other than the Directors, Supervisors and chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO, as at June 30, 2004.

#### **Compliance with the Code of Best Practice and Model Code**

The Directors are not aware of any information that would reasonably indicate that the Company is, or was for any part of the Period, not in compliance with the Code of Best Practice set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong (the "Listing Rules").

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 to the Company 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**

Let me take this opportunity to thank all our employees and staff for their good work and dedication in bringing yet another set of satisfactory results.

By Order of the Board

**GENG Xiaoping**

*Chairman*

Hangzhou, August 16, 2004

**CONSOLIDATED INCOME STATEMENT (Unaudited)**

		<b>For the six months ended June 30,</b>	
		<b>2004</b>	2003
	Notes	<b>Rmb'000</b>	Rmb'000
<b>Turnover</b>	2	<b>1,474,367</b>	1,099,917
Operating costs		(447,026)	(316,266)
Gross profit		1,027,341	783,651
Other revenue	3	(6,361)	56,033
Administrative expenses		(37,959)	(29,908)
Other operating expenses		(15,255)	(12,846)
<b>Profit from operating activities</b>	2, 4	<b>967,766</b>	796,930
Finance costs		(56,009)	(66,518)
Share of profit of associates		8,940	5,936
Share of profit of a jointly-controlled entity		11,089	3,810
<b>Profit before tax</b>		<b>931,786</b>	740,158
Tax	5	(266,895)	(203,370)
<b>Profit before minority interests</b>		<b>664,891</b>	536,788
Minority interests		(62,481)	(44,641)
<b>Net profit from ordinary activities attributable to shareholders</b>		<b>602,410</b>	492,147
<b>Proposed Interim dividends</b>	6	<b>173,725</b>	173,725
<b>Earnings per share</b>	7	<b>13.87 cents</b>	11.33 cents

**CONSOLIDATED BALANCE SHEET**

	Notes	As of June 30, 2004 Unaudited Rmb'000	As of December 31, 2003 Audited Rmb'000
<b>Non-current assets</b>			
Fixed assets	8	12,782,549	12,537,616
Interest in a jointly-controlled entity		70,831	62,554
Interest in associates		171,868	164,498
Expressway operating rights		201,595	205,945
Long-term investments		1,000	1,000
Goodwill		91,592	97,717
		<b>13,319,435</b>	<b>13,069,330</b>
<b>Current assets</b>			
Short-term investment		895,153	1,104,266
Inventories		4,885	3,056
Trade receivables	9	12,084	21,771
Other receivables		64,307	51,469
Cash and cash equivalents		767,176	818,795
		<b>1,743,605</b>	<b>1,999,357</b>
<b>Current liabilities</b>			
Trade payables	10	344,078	367,521
Profit tax payable		230,385	189,848
Other taxes payable		16,782	27,946
Other payables and accruals		289,570	260,077
Interest-bearing bank and other borrowings		725,950	975,950
Dividend payable		53,348	19,070
		<b>1,660,113</b>	<b>1,840,412</b>
<b>Net current assets/(liabilities)</b>		<b>83,492</b>	<b>158,945</b>
<b>Total assets less current liabilities</b>		<b>13,402,927</b>	<b>13,228,275</b>
<b>Non-current liabilities</b>			
Interest-bearing bank and other borrowings		721,260	744,176
Long-term bonds		1,000,000	1,000,000
Deferred tax	11	353,907	325,703
		<b>2,075,167</b>	<b>2,069,879</b>
<b>Minority interests</b>		<b>1,057,114</b>	<b>1,012,417</b>
		<b>10,270,646</b>	<b>10,145,979</b>
<b>Capital and reserves</b>			
Issued capital		4,343,115	4,343,115
Reserves	12	5,753,806	5,325,121
Proposed dividend		173,725	477,743
		<b>10,270,646</b>	<b>10,145,979</b>

**CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES  
IN EQUITY (Unaudited)**

	For the six months ended June 30,	
	2004	2003
	Rmb'000	Rmb'000
<b>Total equity</b>		
Balance at beginning of year	10,145,979	9,701,791
Net profit from ordinary activities attributable to shareholders	602,410	492,147
Dividends paid on ordinary shares	(477,743)	(390,880)
Balance at end of year	<u>10,270,646</u>	<u>9,803,058</u>



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT (Unaudited)**

	For the six months ended June 30,	
	2004	2003
	Rmb'000	Rmb'000
<b>Net cash inflow from operating activities</b>	<b>1,030,302</b>	902,770
<b>Net cash inflow from investing activities</b>	<b>(359,132)</b>	(477,825)
<b>Net cash inflow from financing activities</b>	<b>(809,697)</b>	(421,318)
<b>Increase in cash and cash equivalents</b>	<b>(138,527)</b>	(3,627)
<b>Cash and cash equivalents at the beginning of the Period</b>	<b>567,195</b>	666,291
<b>Cash and cash equivalents at the end of the Period</b>	<b>428,668</b>	669,918
<b>Analysis of cash and cash equivalents</b>		
Cash and bank balances	373,235	372,430
Time deposits with original maturity of less than 3 months	55,433	297,488
	<b>428,668</b>	669,918

**1. BASIS OF PRESENTATION**

The condensed consolidated interim financial statements have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” and the disclosure requirements of the Hong Kong Companies Ordinance. These statements have been prepared under the historical cost convention, modified with respect to the measurement of investments in securities.

**2. 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,			
	2004		2003	
	Turnover	Profit	Turnover	Profit
	Unaudited	contribution	Unaudited	contribution
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Segment by business activities				
- Toll	1,376,019	997,021	1,040,329	764,572
- Service areas	79,921	20,099	46,871	11,549
- Advertising	18,427	10,221	12,717	7,530
	<u>1,474,367</u>	<u>1,027,341</u>	<u>1,099,917</u>	<u>783,651</u>
Other revenue		(6,361)		56,033
Administrative expenses		(37,959)		(29,908)
Other operating expenses		(15,255)		(12,846)
Profit from operating activities		<u>967,766</u>		<u>796,930</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.

### 3. OTHER REVENUE

	For the six months ended June 30,	
	2004	2003
	Unaudited Rmb'000	Unaudited Rmb'000
Revenue/(loss) from short-term securities investments	(36,648)	30,683
Interest income	5,295	8,208
Rental income	10,629	11,199
Trailer income	8,719	4,573
Exchange gain	137	—
Other miscellaneous income	5,507	1,307
Total	(6,361)	56,033

### 4. 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,	
	2004	2003
	Unaudited Rmb'000	Unaudited Rmb'000
Depreciation	139,721	113,508
Amortization of expressway operating rights	4,350	4,350
Amortization of goodwill	6,126	6,317
Staff costs	44,035	39,428

## 5. TAXATION

As the Group had no taxable profits in Hong Kong during the Period, no Hong Kong profits tax has 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,	
	2004	2003
	Unaudited	Unaudited (Re-stated)
	Rmb'000	Rmb'000
<b>Group</b>		
Tax charged	270,078	189,081
Tax refunded	(34,360)	(33,250)
Deferred	28,204	45,184
	<u>263,922</u>	<u>201,015</u>
Share of tax attributable to associates	2,242	2,601
Share of tax attributable to a joint-controlled entity	444	—
Share of deferred tax attributable to an associate	(153)	(712)
Share of deferred tax attributable to a jointly-controlled entity	440	466
	<u>266,895</u>	<u>203,370</u>

According to the relevant national tax rules, Zhejiang Shangsans Expressway Co., Ltd. ("Shangsans Co"), a subsidiary of the Company, was entitled to a 30% CIT exemption for the year ended December 31, 2003 pursuant to relevant policies regarding the hiring of redundant workers, while Zhejiang Expressway Investment Development Co., Ltd. ("Development Co"), a subsidiary of the Company, and Zhejiang Expressway Vehicle Towing and Rescue Services Co., Ltd. ("Services Co"), a subsidiary of the Development Co, both being newly established enterprises in the urban service industry, were each entitled to a 100% CIT exemption for the year ended December 31, 2003 for having hired sufficient number of unemployed workers. In accordance with the approval given by relevant tax authorities, Rmb27,000,000 taxation was refunded to Shangsans Co, while Rmb6,550,000 and Rmb810,000 taxation were refunded to Development Co and Services Co, respectively, during the Period.

## 5. TAXATION (CONT'D)

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,	
	2004	2003
	Unaudited	Unaudited (Re-stated)
	Rmb'000	Rmb'000
<b>Group</b>		
Profit before tax	<b>931,786</b>	740,158
Tax at the statutory tax rate of 33%	<b>307,489</b>	244,252
Tax refunded	<b>(34,360)</b>	(33,250)
Tax effect of net (income)/expense that is not (taxable)/deductible in determining taxable profit	<b>(6,234)</b>	(7,632)
Tax charge at the Group's effective tax rate	<b>266,895</b>	203,370

## 6. DIVIDENDS

The Directors recommend the payment of an interim dividend of Rmb4.0 cents (approximately HK3.8 cents) per share (for the six months ended June 30, 2003: Rmb4.0 cents) to holders of domestic shares and H shares of the Company whose names appear on the register of members of the Company as at September 17, 2004. The recommendation has been set out in the financial statements.

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the Period of Rmb602,410,000 (2003: Rmb492,147,000) and the 4,343,114,500 shares (2003: 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.

## 8. FIXED ASSETS

There were no significant changes to the Group's fixed assets during the Period.

## 9. TRADE RECEIVABLES

The aging analysis of trade receivables as at June 30, 2004 and the comparative figures of December 31, 2003 are as follows:

	<b>As of June 30, 2004 Unaudited Rmb'000</b>	As of December 31, 2003 Audited Rmb'000
Within 1 year	9,483	19,116
1 to 2 years	—	54
Over 2 years	2,601	2,601
Total	<u>12,084</u>	<u>21,771</u>

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

## 10. TRADE PAYABLES

The aging analysis of trade payables as at June 30, 2004 and the comparative figures of December 31, 2003 are as follows:

	<b>As of June 30, 2004 Unaudited Rmb'000</b>	As of December 31, 2003 Audited Rmb'000
Within 1 year	332,613	318,116
1 to 2 years	7,560	44,844
2 to 3 years	1,878	2,218
Over 3 years	2,027	2,343
Total	<u>344,078</u>	<u>367,521</u>

## 11. DEFERRED TAX

	<b>As of June 30, 2004 Unaudited Rmb'000</b>	As of December 31, 2003 Audited Rmb'000
At beginning of period/year	<b>325,703</b>	240,920
(Income)/Expense for the period/year	<b>28,204</b>	84,783
At end of period/year	<b>353,907</b>	325,703
<b>Analysed by principal components</b>		
Revaluation on marketable securities at market price of the end of period/year	—	8,399
Temporary differences resulting from depreciation method	<b>353,907</b>	317,304
	<b>353,907</b>	325,703

## 12. RESERVES

	For the six months ended June 30, 2004					
	Share premium account Rmb'000	Capital/ (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	<b>3,645,726</b>	<b>(352,860)</b>	<b>710,497</b>	<b>340,221</b>	<b>1,410,222</b>	<b>5,753,806</b>
	For the six months ended June 30, 2003					
	Share premium account Rmb'000	Capital/ (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, 2003	3,645,726	(352,860)	533,815	253,511	887,604	4,967,796
Net profit for the Period	—	—	—	—	492,147	492,147
Proposed interim dividend	—	—	—	—	(173,725)	(173,725)
As at June 30, 2003	<b>3,645,726</b>	<b>(352,860)</b>	<b>533,815</b>	<b>253,511</b>	<b>1,206,026</b>	<b>5,286,218</b>

## 13. COMMITMENTS

	For the six months ended June 30, 2004		
	Commitments	Utilization	Balance
	Rmb million	Rmb million	Rmb million
Shanghai-Hangzhou-Ningbo expressway widening project			
From Hongken to Guzhu	106	25	81
From Dajing to Fengjing	2,036	344	1,692
From Guzhu to Dazhujia	2,300	21	2,279
Acquisition of additional 18.4% equity interest in Shangsans Co	485	—	485
Renovation of Sanjiang service area	5	1	4
Construction works under contract			
No.11 of the Shanghai-Hangzhou Expressway	1	—	1
Remaining construction works of the Shangsans Expressway	44	—	44
Purchase of machinery	76	17	59
Total	5,053	408	4,645

## 14. 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.

Under a reorganization agreement, Zhejiang Provincial High Class Highway Investment Co., Ltd. (Replaced by Zhejiang Communications Investment Group Co., Ltd. "CIG") gave a number of undertakings to the Company pursuant to the reorganizations and general indemnity provisions against any breach of representation warranty and undertakings contained in the agreement.

During the Period, the undertaking and indemnities given were executed in accordance with relevant terms of the reorganization agreement.

Pursuant to several rental agreements with Zhejiang Expressway Petroleum Development Co., Ltd ("Petroleum Co"), an associate of the Company, the Group leased five oil stations to Petroleum Co. During the Period, the Group recorded a total rental income of Rmb4,450,000 from Petroleum Co (2003: Rmb3,748,000). The rental income was based on negotiations between the Group and Petroleum Co with reference to the market prices.



## **15. POST BALANCE SHEET EVENTS**

Hangzhou Lutong Advertising Co., Ltd (“Lutong Advertising Co”) was established on July 27, 2004, with a registered capital of Rmb3 million, in which 51% of the equity interest is owned by Development Co, 29% of the equity interest is owned by Hangzhou Huada Road Engineering Company (“Huada Co”) and remaining 20% is owned by ZHU Xiaowei. Both Huada Co and ZHU Xiaowei are independent third parties in respect of the Company. Lutong Advertising Co is principally engaged in billboard advertising business along the roads not operated by the Group.

## **16. CONTINGENT LIABILITIES AND PLEDGE OF ASSETS**

Other than a loan guarantee of Rmb30.0 million provided in favor of Hangzhou Shida Highway Co., Ltd. (“Shida Co,”) a jointly controlled entity, in respect of a commercial bank loan of the same amount extended to Shida Co from September 2001 to September 2009, the Group did not have any contingent liabilities as at June 30, 2004. In addition, the Group had no pledge of assets during the Period.

## **17. COMPARATIVE AMOUNTS**

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

## **18. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved and authorized for issue by the board of directors on August 16, 2004.

#### **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**

Geng Xiaoping  
Zhang Jingzhong

#### **STATUTORY ADDRESS**

19/F, Zhejiang World Trade Centre  
122 Shuguang Road  
Hangzhou City, Zhejiang Province  
PRC 310007

Tel: 86-571-8798 5588  
Fax: 86-571-8798 5599

#### **REPRESENTATIVE OFFICE IN HONG KONG**

Suite 2910  
29/F, Bank of America Tower  
12 Harcourt Road  
Hong Kong

Tel: 852-2537 4295  
Fax: 852-2537 4293

#### **LEGAL ADVISERS**

##### **As to Hong Kong law:**

Herbert Smith  
23rd Floor, Gloucester Tower  
11 Pedder Street, Central  
Hong Kong

##### **As to English and US law:**

Herbert Smith  
Exchange House  
Primrose Street  
London EC2A 2HS  
United Kingdom

##### **As to PRC law:**

T & C Law Firm  
11/F, Block A  
Dragon Century Square  
1 Hang da Road  
Hangzhou, Zhejiang  
PRC 310007

#### **AUDITORS AND REPORTING ACCOUNTANTS**

Ernst & Young  
Certified Public Accountants  
15th Floor  
Hutchison House  
10 Harcourt Road, Central  
Hong Kong

**FINANCIAL ADVISOR & CORPORATE BROKER IN THE UNITED KINGDOM**

Cazenove & Co. Ltd  
20 Moorgate  
London EC2R 6DA  
United Kingdom

**INVESTOR RELATIONS CONSULTANT**

Rikes Communications Limited  
Room 1312, Wing On Centre  
111 Connaught Road Central  
Hong Kong  
Tel : 852-2520 2201  
Fax : 852-2520 2241

**PRINCIPAL BANKERS**

Bank of China, Zhejiang Branch  
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  
Room 1901-1905  
19th 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**

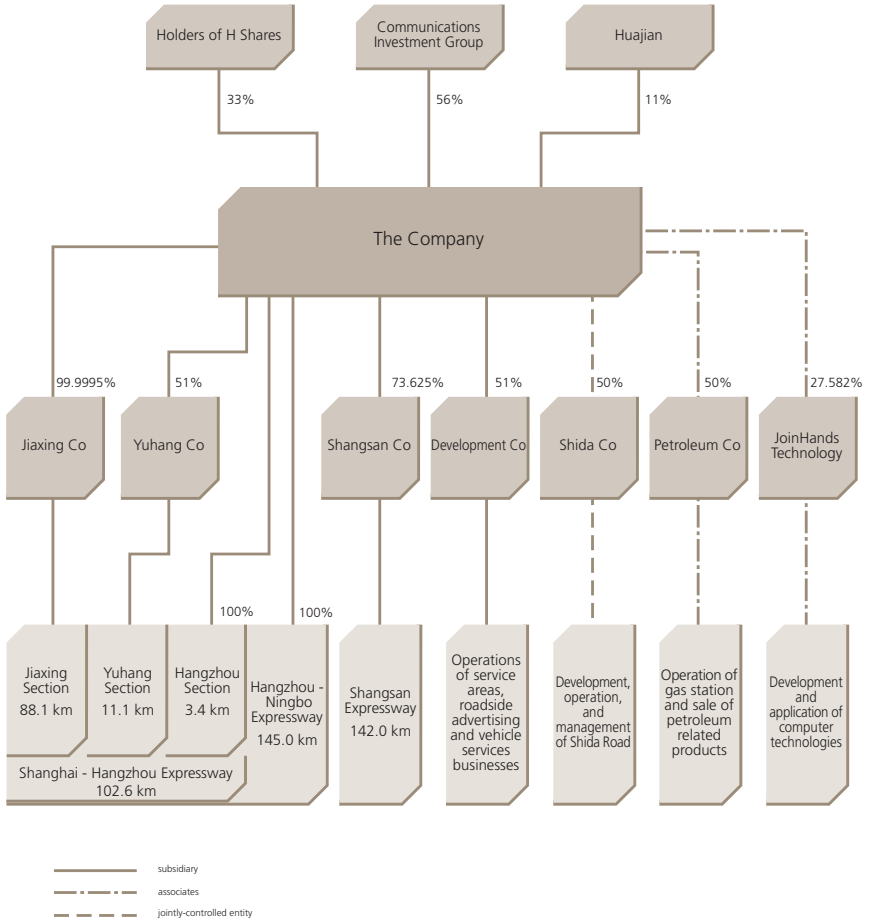
US Exchange: OTC

Symbol: ZHEXY

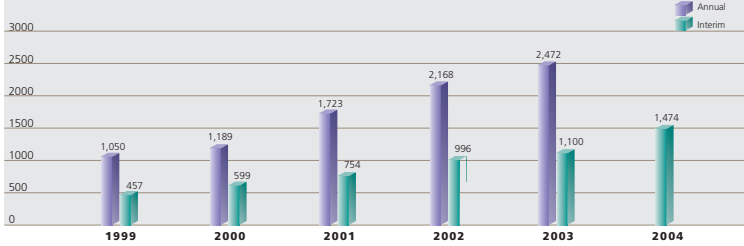
CUSIP: 98951A100

ADR: H Shares 1:30

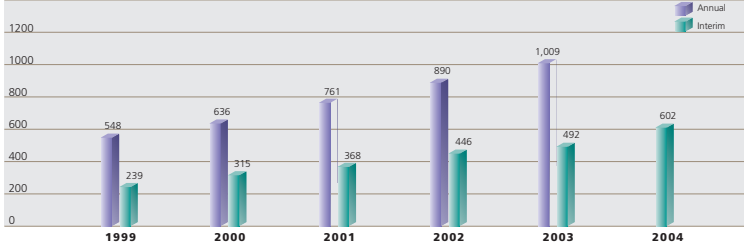
CORPORATE STRUCTURE OF THE GROUP



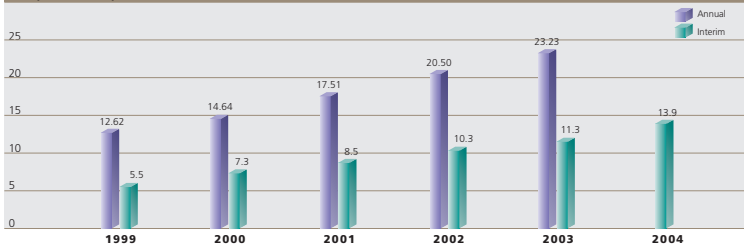
**TURNOVER (RMB MILLION)**



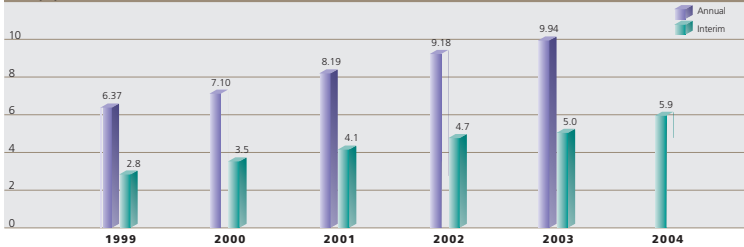
**NET PROFIT (RMB MILLION)**



**EPS (RMB CENTS)**



**ROE (%)**



LOCATION MAP OF EXPRESSWAYS OPERATED BY THE GROUP

