

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.