

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	Unaudited	Rmb'000	Unaudited
		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	Unaudited
	Rmb'000	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	Unaudited
	Rmb'000	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
Group		
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>
Tax charge for the year		

According to the relevant national tax rules, Zhejiang Shangsang Expressway Co., Ltd. ("Shangsang 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 Shangsang 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:

Group	For the six months ended June 30,	
	2004	2003
	Unaudited	Unaudited (Re-stated)
	Rmb'000	Rmb'000
Profit before tax	931,786	740,158
Tax at the statutory tax rate of 33%	307,489	244,252
Tax refunded	(34,360)	(33,250)
Tax effect of net (income)/expense that is not (taxable)/deductible in determining taxable profit	(6,234)	(7,632)
Tax charge at the Group's effective tax rate	266,895	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:

	As of June 30, 2004 Unaudited Rmb'000	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:

	As of June 30, 2004 Unaudited Rmb'000	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

	As of June 30, 2004 Unaudited Rmb'000	As of December 31, 2003 Audited Rmb'000
At beginning of period/year	325,703	240,920
(Income)/Expense for the period/year	28,204	84,783
At end of period/year	353,907	325,703
Analysed by principal components		
Revaluation on marketable securities		
at market price of the end of period/year	—	8,399
Temporary differences resulting from depreciation method	353,907	317,304
	353,907	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	3,645,726	(352,860)	710,497	340,221	1,410,222	5,753,806

	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	3,645,726	(352,860)	533,815	253,511	1,206,026	5,286,218

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 Shangsang 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 Shangsang 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.