

Business Review

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

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

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

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

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

TOLL ROAD OPERATIONS

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

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

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

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

TOLL ROAD-RELATED BUSINESS OPERATIONS

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

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

LONG-TERM INVESTMENTS

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

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

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

UPDATES ON THE ACQUIRED SECURITIES BUSINESS

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

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

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

EXPRESSWAY WIDENING PROJECT

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

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

HUMAN RESOURCES

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