

Stock Rating
Overweight

Industry View
Attractive

August 23, 2007

Zhejiang Expressway Company

Upside Potential Not Fully
Priced In; Stay On Board

What's Changed

Price Target **HK\$9.60 to HK\$10.09**
EPS for 07E, 08E **Up 9%, 2%**

Conclusion: We raise our price target to HK\$10.09 and reiterate our Overweight rating on the stock. We also raise our earnings estimates by 9% and 2% for 2007-08E, due to higher forecasts for the securities business.

What's New: After attending the analyst briefing for ZJEC's interim results, we now have a better earnings visibility on the Zheshang Securities business, which had been opaque due to limited disclosure before the interim results. We are further raising our earnings forecast for this securities business by 28-23% for 2007-09E, following our last upgrade on July 2, 2007 ("ZJEC – Price Target Raised On Strong Security Business").

Moreover, management confirms: 1) toll-by-weight scheme could be implemented in early 2008; 2) the search for asset acquisition from the parent is underway; 3) the plan to ultimately dispose of the securities business is unchanged; and 4) the potential traffic diversion impact of new road/bridge projects slated to be operational in mid-2008 remains between 10-15%.

Favorable Risk Reward: Our Bull case scenario shows 35% upside potential based on 1) toll-by-weight scheme; 2) potential asset injections; 3) concession period extension – which we believe should all happen in the next 6-12 months. On the downside, our bear case scenario shows 11% risk based on 1) lower valuation for the securities business; and 2) severe traffic diversion to the new roads/bridge.

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Key Ratios and Statistics

Reuters: 0576.HK Bloomberg: 576 HK

China Transportation

Price target	HK\$10.09
Shr price, close (Aug 22, 2007)	HK\$9.10
Mkt cap, curr (mn)	Rmb38,440
52-Week Range	HK\$9.44-4.80
Sh out, basic, curr (mn)	4,344.1
EV, curr (mn)	Rmb39,950
Net debt/cap (07e) (%)	(4.7)
ROE (07e) (%)	19.4
Shrs out, basic, per-end (07e) (mn)	4,344
S'hldr eqty (07e) (mn)	Rmb13,177
RNOA (07e) (%)	17.8

Fiscal Year (Dec)	2006	2007e	2008e	2009e
ModelWare EPS (Rmb)*	0.38	0.54	0.60	0.59
Prior ModelWare EPS (Rmb)	-	0.49	0.59	0.59
EPS, basic, rpt'd (Rmb)	0.38	0.54	0.60	0.59
Prior EPS, basic, rpt'd (Rmb)	-	0.49	0.59	0.59
Revenue, net (Rmb mn)	4,764	6,646	7,322	7,684
ModelWare net inc (Rmb mn)	1,653	2,332	2,602	2,570
P/E	15.7	16.5	14.8	15.0
P/BV	2.2	2.9	2.7	2.6
EV/EBITDA	8.5	9.3	8.4	8.1
Div yld (%)	4.5	4.5	5.1	5.0

* = Please see explanation of Morgan Stanley ModelWare later in this note.
e = Morgan Stanley Research estimates

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Zhejiang Expressway Company

ZJEC: Financial Summary 2005 - 2009E

Profit and Loss Statements

Year to Dec (Rmb Mn)	2005	2006	2007E	2008E	2009E
Toll road income	3,351	3,644	4,047	4,471	4,480
- SHN Expwy	2,520	2,810	3,172	3,473	3,402
- Shangsang Expwy	831	834	875	997	1,077
Service area income	230	968	1,305	1,351	1,459
Advertising	48	53	71	82	88
Road maintenance	3	6	8	9	9
Zheshang Securities	0	194	1,488	1,711	1,967
Total Revenue	3,631	4,866	6,919	7,623	8,004
Less: business tax	(175)	(102)	(273)	(301)	(320)
Net revenue	3,456	4,764	6,646	7,322	7,684
Cost of sales	(1,195)	(2,077)	(2,952)	(3,240)	(3,523)
Gross profit	2,261	2,687	3,694	4,083	4,161
Other revenues	127	155	404	275	280
Administrative expense	(63)	(71)	(77)	(84)	(91)
Other expense	(42)	(33)	(37)	(39)	(41)
Operating profits	2,284	2,738	3,984	4,234	4,310
Interest income	40	26	49	67	38
Interest expense	(101)	(72)	(72)	(71)	(74)
Exchange gains, net	18	22	22	20	20
Profit of assoc.	7	4	5	5	5
Profit of JCE (50% Shida C	16	23	23	25	26
Profit before tax	2,265	2,743	4,012	4,279	4,324
Tax	(692)	(884)	(1,033)	(1,070)	(1,081)
Profit before MI	1,572	1,859	2,978	3,209	3,243
Minority interests	(141)	(206)	(647)	(607)	(673)
Net profit	1,431	1,653	2,332	2,602	2,570
Net profit - Ex Zheshang	1,431	1,636	1,810	2,133	2,040
EBITDA	2,815	3,355	4,629	4,862	4,998
EPS (Rmb)	0.33	0.38	0.54	0.60	0.59

Balance Sheet

	2005	2006	2007E	2008E	2009E
Total fixed assets, net	13,423	13,776	13,378	13,381	13,063
Interests in a JCE (Shida C	80	88	96	106	117
Interests in assoc.	227	225	546	867	1,188
Others	662	808	1,504	1,495	1,486
Total Non-Current Assets	14,392	14,896	15,524	15,849	15,854
Cash	724	1,565	2,182	2,935	3,934
Other current assets	858	2,875	2,951	3,022	3,094
Prepayments & other recei	338	235	894	985	1,035
Current Assets	1,920	4,674	6,027	6,943	8,062
Current Liabilities	2,015	4,313	4,882	5,040	5,176
LT debts/bonds	1,548	1,448	1,344	1,240	1,240
Other LT liabilities	384	457	457	457	457
Minority Interests	1,168	1,459	1,815	2,149	2,519
Net Asset	11,196	11,893	13,053	13,905	14,524
Shareholders' Equity	11,196	11,893	13,053	13,905	14,524

Cash Flow Statement

	2005	2006E	2007E	2008E	2009E
Profit from operation	2,284	2,738	3,984	4,234	4,310
Depreciation & Amortisatic	544	616	667	666	696
Other non-cash items	43	23	(0)	(16)	16
Change in Working Capita	(230)	94	(145)	12	31
Free Cash Flow	985	1,440	2,107	2,784	3,186
Interest Received/(Paid)	40	26	49	67	38
Dividend Paid	(1,007)	(1,048)	(1,464)	(2,022)	(2,254)
Capital Expenditures	(998)	(1,096)	(1,295)	(990)	(700)
New Bank Loan	10	(104)	(104)	(104)	0
Others	(27)	527	28	28	28
Increase/(Decrease) In C	2	841	618	753	999
Beginning Cash	722	724	1,565	2,182	2,935
Ending Cash	724	1,565	2,182	2,935	3,934

Ratio Analysis

	2005	2006	2007E	2008E	2009E
Growth%					
Toll road income	9.3	8.8	11.0	10.5	0.2
- SHN Expwy	8.2	11.5	12.9	9.5	(2.0)
- Shangsang Expwy	12.4	0.3	4.9	14.0	8.0
Service area income	25.3	320.7	34.8	3.5	8.0
Advertising	16.7	10.8	33.6	15.0	8.0
Road maintenance	(64.5)	119.4	48.9	5.0	5.0
Total Revenue	10.1	34.0	42.2	10.2	5.0
Net revenue	10.4	37.8	39.5	10.2	4.9
Gross profit	0.5	18.8	37.5	10.5	1.9
Operating Profit	16.5	19.9	45.5	6.3	1.8
Pretax Profit	19.2	21.1	46.3	6.6	1.1
Net Profit	16.8	15.5	41.1	11.6	(1.2)
Net profit - Ex Zheshang	16.8	14.3	10.6	17.8	(4.4)
EBITDA	22.2	19.2	38.0	5.0	2.8
EPS	16.7	15.5	41.1	11.6	(1.2)
Margin%					
EBITDA margin	81.4	70.4	69.7	66.4	65.0
Operating Margin	66.1	57.5	59.9	57.8	56.1
Net Profit Margin	41.4	34.7	35.1	35.5	33.5
Return%					
ROE	12.8	13.9	17.9	18.7	17.7
ROA	8.8	8.4	10.8	11.4	10.7
Gearing					
Net Debt/Equity (%)	14.3	1.5	NC	NC	NC
Net Interest Coverage (x)	43.6	114.0	782.5	105.8	NM

Operational Analysis

	2005	2006	2007E	2008E	2009E
Avg traffic (vehicles/day)					
- SH-HZ Expwy	36,031	42,296	48,377	51,280	48,818
- HZ-NB Expwy	34,865	35,806	39,510	44,252	44,384
- Shangsang Expwy	20,360	19,733	21,713	23,450	25,326
Avg toll income (Rmb m/day)					
- SH-HZ Expwy	2.9	3.5	4.0	4.4	4.1
- HZ-NB Expwy	3.9	4.0	4.5	5.2	5.2
- Shangsang Expwy	2.3	2.3	2.4	2.7	3.0
Growth%					
Avg traffic (vehicles/day)					
- SH-HZ Expwy	2.1	17.4	14.4	6.0	(4.8)
- HZ-NB Expwy	8.2	2.7	10.3	12.0	0.3
- Shangsang Expwy	4.9	(3.1)	10.0	8.0	8.0
Avg toll income (Rmb m/day)					
- SH-HZ Expwy	4.6	19.0	14.0	9.5	(4.8)
- HZ-NB Expwy	9.2	4.0	10.0	15.7	0.3
- Shangsang Expwy	11.7	0.2	8.0	11.7	8.0

Valuation

	2005	2006	2007E	2008E	2009E
P/E	25.5	15.7	16.5	14.8	15.0
P/BV	3.6	2.2	2.9	2.7	2.6
EV/EBITDA	14.5	8.5	9.3	8.4	8.1
Dividend yield	2.5	4.5	4.5	5.1	5.0
FCF/EV	2.2	3.5	5.2	6.9	8.0
FCF/Mkt cap	2.5	3.6	5.3	7.0	8.1

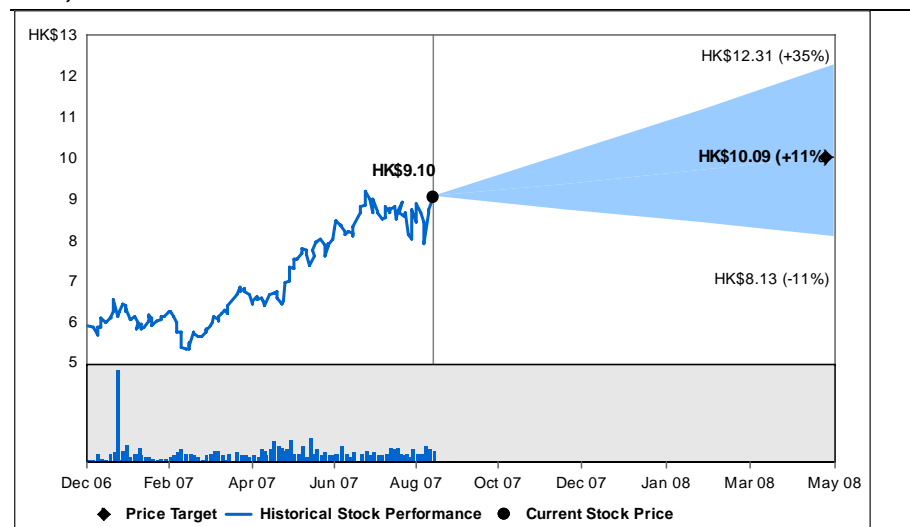
E = Morgan Stanley Research Estimates; NA = Not Available; NC = Net Cash; NM = Not Meaningful
Source: Company Data, Morgan Stanley Research

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Zhejiang Expressway Company (0576.HK, HK\$9.10, OW, PT, HK\$10.09)

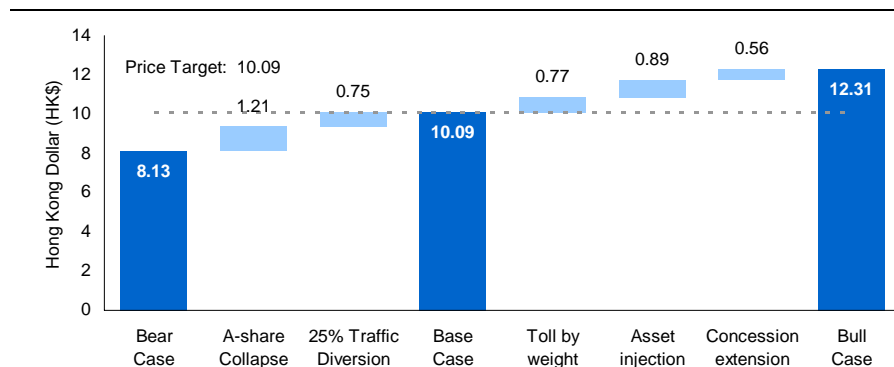
Bull, Bear and Base Case Scenarios: Favorable Risk Reward



Source: FactSet, Morgan Stanley Research

Price Target HK\$10.09			Our price target is based on sum-of-parts model using DCF and P/E multiple for valuations of ZJEC's toll road and security businesses.
Bull Case	11.2x Bull Case 08E EV/EBITDA	HK\$12.31	Extension of concession period by 5 years for the core asset - Hangzhou-Hangzhou-Ningbo Expressways; Lower WACC led by asset injection; 10% higher toll income led by "Toll-by-weight".
Base Case	9.2x Base Case 08E EV/EBITDA	HK\$10.09	Stable GDP growth with no toll rate changes. Traffic diversion by 15% in 2009. Valuation of Zheshang Securities at 15x 2008E P/E.
Bear Case	7.4x Bear Case 08E EV/EBITDA	HK\$8.13	More severe traffic diversions lead to 25% loss of traffic in 2009; Cost of book value for Zheshang Securities due to significant A-share market collapse.

Bull to Bear - ZJEC Share Price Drivers



Source: Morgan Stanley, FactSet

Investment Thesis

- Raise price target to HK\$10.09 from HK\$9.60 and maintain Overweight rating.
- Strong interim earnings growth mainly driven by Zheshang Securities and lower deferred tax liabilities.
- Raise earnings by 9%/2% for 2007-08E due to higher earnings from Zheshang Securities.
- Likely asset injections from parent company.

Near-term Catalysts

- Increasing upside risks to consensus earnings estimate for 2007 onwards.
- Positive impact from the implementation of "Toll-by-weight" tariff scheme in Zhejiang Province.
- Potential extension of concession periods of existing toll road assets, such as the Shanghai-Hangzhou-Ningbo Expressways.

Key Risks

- Collapse of A-share market.
- More severe traffic diversion to rival roads/bridge due for completion by 2008.
- Interest rate hikes.
- Exogenous risks, including economic slowdown, disease, and other natural disasters.

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Investment Case

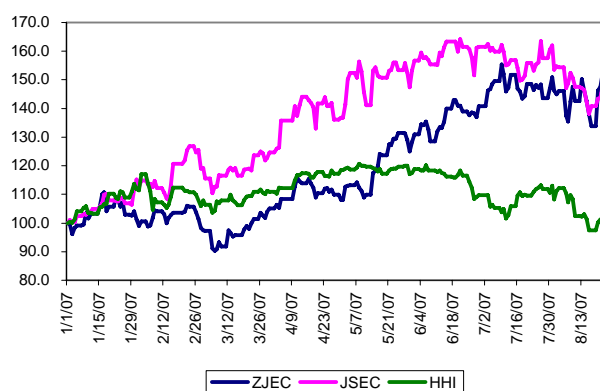
Summary & Conclusions

We raise our 12-month price target to HK\$10.09 to reflect ZJEC's solid interim results and reiterate our Overweight rating on the stock.

ZJEC is our top pick among the Chinese toll road companies. Despite its 53% YTD performance, we believe strong catalysts will support its potential outperformance in the next 6-12 months. Investors should maintain their exposure given its strong earnings momentum with a very favorable risk reward profile.

Exhibit 1

ZJEC: Relative Price Performance, YTD



Source: Bloomberg

Zheshang Securities – Unlocking Its Earnings Black Box

We further raise our earnings estimates for ZJEC by 9% and 2% for 2007-08E while keeping the 2009 earnings largely unchanged. The major earnings impact is from the securities business, as we forecast 28%, 20% and 23% higher earnings for the business in 2007-09E, to Rmb1,006 million, Rmb904 million and Rmb1,023 million on a stand alone basis, or Rmb522 million, Rmb469 million and Rmb531 million attributable to ZJEC on a 52% effective basis.

On the other hand, we project core recurrent earnings to grow by 12.5% and 15.9% for 2007-08E and drop by 4.4% in 2009E due to potential traffic diversions arising from the construction of the Hangzhou Bay Bridge. Our earnings estimates do not factor in the impact of the new toll-by-weight scheme or asset injections.

Although our estimates are significantly above the market consensus (see Exhibit 2), we are confident our numbers are

achievable given much better earnings visibility for the securities business after we attended the analyst meeting yesterday.

Exhibit 2

ZJEC: MS vs. Consensus Estimates, 2007-09E

	2007E	2008E	2009E
MS Revenues	6,646	7,322	7,684
IBES Revenues	5,688	6,024	5,804
% Difference	16.8%	21.6%	32.4%
MS Net Profit	2,332	2,602	2,570
IBES Net Profit	1,954	2,375	2,176
% Difference	19.3%	9.5%	18.1%

E = Morgan Stanley Research or IBES Estimates;
Source: Morgan Stanley Research, FactSet

Price Target = HK\$10.09

Our new SOP valuation (see Exhibit 5) of HK\$10.09, consisting of HK\$1.52 (+27%) for the securities business and HK\$8.57 (+2%) for the toll road assets, suggests 11% upside potential from the current level.

We continue to use 15x 2008 P/E for the valuation of Zheshang Securities and DCF models for the toll road valuations. The higher value for the securities business is based on our higher earnings estimates while the higher toll road value is based on the impact of Renminbi appreciation.

While we keep most of our DCF valuation assumptions (e.g. WACC, concession length) unchanged, we are lowering our traffic growth assumption for 2008-09 by 2%-3% for the Shanghai-Hangzhou-Ningbo Expressway due to more severe traffic diversion concerns.

Favorable Risk Reward

Our scenario analysis indicates a favorable risk reward profile for ZJEC, as we see 35% upside potential for our bull case scenario versus 11% downside risk for bear case (shown on page 3).

On the positive side, we see a list of major catalysts ahead which are yet to be fully priced in: 1) toll-by-weight scheme could be implemented in Zhejiang Province by early 2008; 2) possible asset injections; 3) potential concession period extensions; and 4) continued earnings momentum from the Zheshang Securities business. Our bull case valuation of HK\$12.31 implies a 35% upside potential from current levels.

On the downside, we see potential major risks arising from 1) A-share market collapse, leading to a lower value for Zheshang Securities at book value; and 2) 25% traffic diversion from the competing roads/bridges. Our Bear Case valuation of HK\$8.13 is 11% below the current price.

Exhibit 3

ZJEC: Assessing Positive and Negative Catalysts

Catalysts	Time	Impact
Positives		
1. Toll-by-weight	Early 2008	10% additional toll income
2. Asset injection	2008	Assuming zero NPV, but can easily increase leverage to 30/70 for Debt/Equity
3. Concession extension	2008	Additional HK\$0.56 in DCF valuation
Negatives		
1. A-share collapse	2008	Lower valuation for Zheshang securities
2. 25% Traffic diversion	2008	Loss of HK\$0.75 in DCF valuation

Source: Morgan Stanley Research

Risks to Price Target and Earnings

We believe major downside risks to our price target and earnings may come from the following areas:

- A-share market collapse.** We estimate the earnings contribution and fair value of Zheshang Securities to account for 18%-15% of ZJEC for 2008. Should the A-share market collapse, it would impact negatively on our earnings forecast and valuation for ZJEC. On our estimate, every 10% decline in securities revenues implies 1.5% earnings decline and 1.6% lower fair value for ZJEC.
- Severe traffic diversions.** We are aware of the risk of traffic diversion to several competing roads/bridges, which are due to be completed in 2008. These are: Hangpu Expressway, Shenjiahuhang Expressway, and the Hangzhou Bay Bridge. Although we are lowering our original traffic volume forecasts for ZJEC's Shanghai-Hangzhou-Ningbo Expressway, every 1% additional traffic diversion could lead to 1.1% lower earnings and 0.7% decline in fair value for ZJEC. However, we expect the strong intrinsic traffic demand following the Phase III widening work on the Hangzhou-Ningbo section to largely offset the traffic diversion impact.
- Interest rate hikes.** We estimate a 4% decline in our DCF-based valuation on every 50bps increase in the risk-free rate.
- Exogenous risks.** These include abrupt economic slowdown, outbreak of epidemics, and natural disasters such as floods, typhoons, etc.

Behind 1H07 Results

ZJEC announced net interim earnings of Rmb1,197 million, surging by 74% YoY (Exhibit 4). We summarize the major points as follows.

- Strong earnings from securities business.** Thanks to the booming domestic market, Zheshang Securities contributed Rmb574 million, or 14%, in operating profit and Rmb357 million, or 35%, in net profit.
- Lower effective tax.** The 19.5% effective tax rate was due to 1) reduced deferred tax liabilities as the company is preparing for tax unification in 2008 (from 33% to 25%) and 2) Zheshang Securities' taxable profit was offset by losses brought forward from 2006.
- Robust core business.** Excluding the securities business, net profit from the core business was about Rmb832 million, an increase of 21% YoY. Stripping out the lower tax impact, the number would be around Rmb746 million, an increase of 8.3% YoY.

Company Description

ZJEC is the leading infrastructure company principally engaged in investing in, constructing and managing high grade roads in Zhejiang Province, PRC. The 248km Shanghai-Hangzhou-Ningbo Expressway forms the backbone of the company's toll road assets, contributing 75% of the company's total toll income in 2005. The company and its subsidiaries also carry out certain ancillary businesses such as automobile servicing and operations of gas stations and billboard advertising along expressways.

China Transportation

Industry View: Attractive

We favor Chinese airports for their monopoly market position and secular growth potential. We believe commercial activities such as rentals, retailing, advertising, and cargo business will drive long-term growth beyond the robust aeronautical revenue growth.

MSCI Country: China

Asia Strategist's Recommended Weight: 17.6%
MSCI Asia/Pac All Country Ex Jp Weight: 13.6%

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Exhibit 4

ZJEC: Summary of 1H07 Financial Results

Rmb mn	1H07	1H06	% Chng	MS Comments
Revenues				
Toll	1,889	1,733	9%	Low growth due to Phase III widening work and low growth on Shangsan
Service areas	576	429	34%	New addition of a pair of rest areas
Advertising	32	25	32%	
Securities business	883	-	100%	Fresh contribution of Zheshang Securities
Net revenues	3,382	2,186	55%	
Depreciation	(296)	(306)	-3%	New Phase III assets may be counted in end-2007
Staff costs	(53)	(47)	13%	
Maintenance costs	(244)	(240)	2%	
Operating mgmt costs	(31)	(26)	20%	
Ancillary business costs	(572)	(413)	39%	Increase in cost associated with gas sales, retails, etc.
Zheshang costs	(309)	-	na	
Operating costs	(1,505)	(1,031)	46%	
Gross profit	1,877	1,155	62%	Toll road margin improved by about 3ppt YoY
Gain on disposal of investment held for trading	160	5	3256%	Related to proprietary trading income for Zheshang Securities
Gain on fair value changes on investments	3	-	100%	
Interest income	11	17	-36%	
Rental income	13	7	88%	
Trailer income	11	11	-1%	
Exchange gain	17	7	153%	Higher RMB appreciation
Other miscellaneous income	21	9	131%	
Other income	237	56	323%	
Administrative expenses	(35)	(29)	19%	
Other operating expenses	(54)	(14)	292%	
Operating profits	2,024	1,168	73%	Mainly due to contribution from securities business
Operating margin	60%	53%		
Finance costs	(26)	(47)	-45%	Retirement of some debt
Share of profit of associates	1	2	-37%	
Share of profit of a JCE	10	10	1%	
Profit before tax	2,010	1,133	77%	
Income tax expense	(393)	(373)	5%	Lower effective tax due to 1) reduced deferred tax liabilities; 2) taxable profit offset by loss brought forward from the securities business
	19.5%	32.9%		
Profit before MI	1,617	760	113%	
Minority Interests	(420)	(72)	485%	Due to Zheshang Securities
Net Profit	1,197	689	74%	
Ex-Zheshang Net Profit	832	689	21%	High growth partly due to lower tax rate

Source: Company Data, Morgan Stanley Research

Exhibit 5

ZJEC: Sum of Parts Valuation

Rmb mn		NAV	% of Total NAV	Effective Shareholding
SH-HZ Expwy	DCF	12,294	29.2%	94%
HZ-NB Expwy	DCF	16,574	39.3%	100%
Shangsan Expwy	DCF	6,268	14.9%	74%
Shida Expwy	DCF	658	1.6%	50%
Zheshang Securities	15x 08E P/E	6,349	15.1%	52%
		42,142		
Shares O/S		4,344		
Per share value (HK\$)				
Toll road assets		1.52		
Zheshang Securities		8.57		
Fair value		10.09		

Source: Morgan Stanley Research

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Exhibit 6

Comparative Valuation of Global Toll Roads

Compay	MS Rating	Bloomberg code	Price 8/22/07	Mkt cap (LC Bn)	07E	EPS (LC) 08E	09E	07E	P/E (x) 08E	09E
Zhejiang Expressway	O	576 HK	9.10	39.5	0.5	0.6	0.6	16.5	14.8	15.0
Sichuan Expressway	NR	107 HK	2.53	6.5	0.1	0.2	0.2	19.2	17.9	15.8
Hopewell Highway	E	737 HK	6.68	19.8	0.5	0.5	0.5	16.1	14.6	13.3
Anhui Expressway	NR	995 HK	6.53	14.3	0.5	0.5	0.6	14.7	13.3	12.4
Jiangsu Expressway	O	177 HK	7.25	46.7	0.3	0.4	0.5	22.9	17.9	15.5
Shenzhen Expressway	NR	548 HK	7.31	22.9	0.3	0.4	0.5	25.0	22.1	16.8
Plus Expressway	NR	PLUS MK	3.06	15.3	0.2	0.2	0.2	15.2	14.8	14.5
Autostrada	NR	AT IM E	16.24	1.4	1.3	1.4	1.2	12.9	12.4	14.3
Transurban Group	O	TCL AU	6.72	7.2	(0.1)	(0.1)	(0.1)	NM	NM	NM
Bangkok Expressway	NR	BECL TB	23.90	18.4	1.9	2.4	2.9	13.1	10.6	8.6
Mouchel Parkman	NR	MCHL LN	395.25	0.4	0.2	0.2	0.3	19.0	16.4	14.4
Lingkar Trans	NR	LTK MK	3.70	1.8	0.2	0.3	0.3	15.9	14.5	13.2
Average								18.2	16.3	14.0

Compay	07E	BPS (LC) 08E	09E	07E	P/BV (x) 08E	09E	07E	ROE 08E	09E
Zhejiang Expressway	3.0	3.2	3.4	2.9	2.7	2.6	17.9%	18.7%	17.7%
Sichuan Expressway	2.1	2.3	2.4	1.3	1.2	1.2	6.5%	6.7%	7.2%
Hopewell Highway	3.6	3.7	3.8	2.0	1.8	1.7	13.1%	12.8%	13.6%
Anhui Expressway	3.6	3.9	4.1	2.0	1.9	1.8	13.2%	13.5%	13.6%
Jiangsu Expressway	2.8	2.9	3.1	2.5	2.4	2.3	11.3%	14.0%	15.6%
Shenzhen Expressway	3.2	3.5	3.5	2.4	2.4	2.2	9.7%	10.1%	13.0%
Plus Expressway	1.0	1.1	1.1	3.2	3.3	3.0	21.5%	20.5%	19.9%
Transurban Group	2.7	2.4	1.9	3.0	2.9	3.6	-2.3%	-2.7%	-3.2%
Europistas concesionaria	1.1	1.2	na	6.5	6.6	6.4	18.8%	18.1%	na
Bangkok Expressway	21.1	22.4	24.0	1.2	1.2	1.1	9.2%	10.7%	12.2%
Mouchel Parkman	0.8	0.9	na	5.7	5.2	4.3	27.5%	26.0%	28.9%
Lingkar Trans	1.9	2.0	2.3	2.1	2.1	1.9	13.3%	13.3%	13.2%
Average				2.7	2.6	2.5	13.2%	13.5%	13.9%

Compay	07E	EV/EBITDA (x) 08E	09E	07E	DPS (LC) 08E	09E	07E	Div yield 08E	09E
Zhejiang Expressway	9.3	8.4	8.1	0.4	0.4	0.4	4.1%	5.1%	5.0%
Sichuan Expressway	10.5	9.6	8.7	0.1	0.1	0.1	2.0%	2.2%	2.6%
Hopewell Highway	10.7	9.6	9.0	0.3	0.3	0.4	4.6%	5.1%	5.6%
Anhui Expressway	10.9	10.5	9.3	0.3	0.3	0.3	3.8%	4.3%	4.6%
Jiangsu Expressway	12.3	10.6	9.2	0.2	0.3	0.3	3.1%	3.9%	4.5%
Shenzhen Expressway	24.5	20.6	14.5	0.2	0.2	0.2	2.1%	2.4%	3.2%
Plus Expressway	11.6	11.0	10.9	0.1	0.2	0.2	4.7%	5.1%	5.2%
Transurban Group	33.1	25.8	25.2	0.5	0.6	0.6	6.7%	8.6%	9.2%
Europistas concesionaria	17.9	17.8	na	0.2	0.2	na	2.4%	2.4%	na
Bangkok Expressway	7.2	6.2	5.2	1.0	1.2	1.5	4.3%	4.9%	6.1%
Mouchel Parkman	11.9	9.7	8.0	0.0	0.1	0.1	0.0%	0.0%	0.0%
Lingkar Trans	9.2	8.6	7.8	0.1	0.1	0.1	2.2%	2.4%	2.9%
Average	13.7	11.9	10.3				3.4%	3.9%	4.4%

E = IBES or Morgan Stanley Research Estimates

Source: FactSet, Morgan Stanley Research

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Zhejiang Expressway Company

Exhibit 7

ZJEC: Consolidated Income Statement, 2005-2009E

Year end in Dec. (Rmb m)	2005	2006	2007E	2008E	2009E
Turnover					
Toll income	3,351	3,644	4,047	4,471	4,480
SHN Exprwy	2,520	2,810	3,172	3,473	3,402
Shangsan Exprwy	831	834	875	997	1,077
Service area income	230	968	1,305	1,351	1,459
Advertising	48	53	71	82	88
Road maintenance income	3	6	8	9	9
Zheshang Securities	0	194	1,488	1,711	1,967
Gross revenues	3,631	4,866	6,919	7,623	8,004
Less: revenue tax	(175)	(102)	(273)	(301)	(320)
Tax rate	4.8%	2.1%	3.9%	3.9%	4.0%
Net revenues	3,456	4,764	6,646	7,322	7,684
YoY Chng	10.4%	37.8%	39.5%	10.2%	4.9%
Operating costs	(1,195)	(2,077)	(2,952)	(3,240)	(3,523)
Depreciation	(539)	(607)	(658)	(657)	(688)
Staff costs	(134)	(161)	(180)	(202)	(226)
Maintenance costs	(233)	(219)	(263)	(316)	(363)
Operating mgmt costs	(59)	(56)	(66)	(77)	(88)
Ancillary business costs	(230)	(939)	(1,291)	(1,420)	(1,505)
Zheshang costs	0	(95)	(495)	(569)	(654)
Gross profit	2,261	2,687	3,694	4,083	4,161
YoY Chng	0.5%	18.8%	37.5%	10.5%	1.9%
Gross margin	65.4%	56.4%	55.6%	55.8%	54.1%
Income/(loss) on investments	14	14	285	150	150
Gain on fair value changes on investments	20	67	50	50	50
Rental income	45	21	11	12	13
Trailer income	20	22	25	28	31
Subsidy income	0	0	0	0	0
Other income	28	32	33	35	37
Other revenue	127	155	404	275	280
Administrative expense	(63)	(71)	(77)	(84)	(91)
Other expense	(42)	(33)	(37)	(39)	(41)
Operating profits	2,284	2,738	3,984	4,234	4,310
YoY Chng	16.5%	19.9%	45.5%	6.3%	1.8%
Operating margin	66.1%	57.5%	59.9%	57.8%	56.1%
Interest income	40	26	49	67	38
Interest expense	(101)	(72)	(72)	(71)	(74)
Exchange gains, net	18	22	22	20	20
Profit of assoc.	7	4	5	5	5
Profit of JCE (50% Shida Co)	16	23	23	25	26
Profit before tax	2,265	2,743	4,012	4,279	4,324
Tax	(692)	(884)	(1,033)	(1,070)	(1,081)
Effective tax rate	31%	32%	26%	25%	25%
Profit before MI	1,572	1,859	2,978	3,209	3,243
Minority interests	(141)	(206)	(647)	(607)	(673)
Net profit	1,431	1,653	2,332	2,602	2,570
YoY Chng	16.8%	15.5%	41.1%	11.6%	-1.2%
Net margin	41.4%	34.7%	35.1%	35.5%	33.5%
Net profit - Ex Zheshang	1,431	1,636	1,810	2,133	2,040
YoY Chng	16.8%	14.3%	10.6%	17.8%	-4.4%

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

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Zhejiang Expressway Company

Exhibit 8

ZJEC: Consolidated Balance Sheet, 2005-2009E

Year end in Dec. (Rmb m)	2005	2006	2007E	2008E	2009E
Non-current assets					
Exprwy & bridges	11,875	12,227	11,917	11,931	11,773
Toll stations & facilities	312	324	311	297	283
Comm & signalling equipment	111	103	83	141	19
Motor vehicles	57	53	32	10	19
Machinery & equipment	117	118	85	51	18
Construction in progress	950	950	950	950	950
Total	13,423	13,776	13,378	13,381	13,063
Prepaid lease payments	387	391	391	391	391
Interests in a JCE (Shida Co 50%)	80	88	96	106	117
Interests in assoc.	227	225	546	867	1,188
Exprwy operating rights	189	180	171	162	154
Available for sale investments	1	1	1	1	1
Goodwill	85	91	91	91	91
Deferred tax assets	0	0	0	0	0
Other intangible assets	0	145	145	145	145
Capital injection in Zheshang	0	0	705	705	705
	14,392	14,896	15,524	15,849	15,854
Current assets					
Investments held for trading	612	230	230	230	230
Inventories	6	12	16	17	19
Account receivable	22	54	41	46	48
Other receivables	316	181	853	940	987
Loans to an associate	116	0	0	0	0
Prepaid lease payments	18	19	19	19	19
Cash held on behalf of customers	0	2,508	2,580	2,650	2,720
Cash & equivalents	829	1,670	2,288	3,041	4,040
Cash & deposits < 3 mth	724	1,565	2,182	2,935	3,934
Time deposits (>3 mth)	106	106	106	106	106
	1,920	4,674	6,027	6,943	8,062
Current liabilities					
Accounts payable	402	369	887	991	1,073
Profit tax payable	334	537	589	642	696
Other tax payable	32	20	20	20	20
Other payable & accruals	327	410	410	410	410
Accruals	80	80	80	80	80
Other liabilities	232	315	315	315	315
Amounts due to related parties	12	12	12	12	12
Amounts due to the holding co.	3	3	3	3	3
Interest bearing loans	887	397	397	397	397
Div payable	33	42	42	42	42
Payable to customers from security business	0	2,502	2,502	2,502	2,502
Provision	0	35	35	35	35
Liabilities held for sale	0	1	1	1	1
	2,015	4,313	4,882	5,040	5,176
Net current (liabilities) assets	(96)	362	1,145	1,903	2,886
Total assets less current liabilities	14,296	15,258	16,669	17,751	18,740
Non-current liabilities					
Interest bearing loans	548	448	344	240	240
LT bonds	1,000	1,000	1,000	1,000	1,000
Deferred tax liabilities	384	457	457	457	457
	1,932	1,905	1,801	1,697	1,697
Minority interests	1,168	1,459	1,815	2,149	2,519
Net Assets	11,196	11,893	13,053	13,905	14,524
Capital & reserves					
Issue capital	4,343	4,343	4,343	4,343	4,343
Reserves	6,201	6,682	7,265	7,915	8,558
Proposed final dividend	651	869	1,445	1,647	1,624
Capital Employed	11,196	11,893	13,053	13,905	14,524

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

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Zhejiang Expressway Company


Exhibit 9

ZJEC: Consolidated Cash Flow Statement, 2005-2009E

Year end in Dec. (Rmb m)	2005	2006	2007E	2008E	2009E
Operating activities					
Profit before tax	2,265	2,743	4,012	4,279	4,324
Profit from a JCE	(16)	(23)	(23)	(25)	(26)
Profit from assoc.	(7)	(4)	(5)	(5)	(5)
Depreciation	535	607	658	657	688
Amortization of exprwy operating rights	9	9	9	9	9
Interest income	(40)	(26)	(49)	(67)	(38)
Interest expense	101	72	72	71	74
Operating lease rental on land use rights	18	0	0	0	0
Held for trading investments	(20)	0	(50)	(50)	(50)
Exchange gains, net	(18)	(22)	(22)	(20)	(20)
Loss on disposal of fixed assets	1	0	0	0	0
Decrease(Increase) in inventories	(0)	(6)	(4)	(2)	(2)
(Increase)/decrease in accounts receivables	5	(33)	13	(4)	(2)
(increase)/decrease in other receivables/prepayment	(259)	251	(673)	(87)	(47)
Increase in amount due from assoc.	(3)	0	0	0	0
Increase in accounts payables	50	(33)	518	104	82
Increase/(decrease) in other tax payable	7	(11)	0	0	0
Increase in other liabilities	(34)	(82)	0	0	0
Increase in accruals	3	0	0	0	0
Increase in amount due to a JCE	1	0	0	0	0
Interest paid	(107)	(72)	(72)	(71)	(74)
Profit tax paid	(506)	(840)	(982)	(1,016)	(1,027)
Net cash generated from operations	1,983	2,537	3,402	3,774	3,886
Investing activities					
Interest received	40	26	49	67	38
Capex	(998)	(1,096)	(1,295)	(990)	(700)
Additions to fixed assets	(945)	(977)	(260)	(660)	(370)
Acquisition of additional int. in subsidiary	0	(119)	(705)	0	0
Proceeds from fixed assets disposal	1	0	0	0	0
Acquisition of assoc.	(54)	0	(330)	(330)	(330)
Loans to an associate	(116)	116	0	0	0
Dividend from a JCE	15	15	15	15	15
Dividend received from assoc.	13	13	13	13	13
(Increase)/decrease in time deposits	(24)	0	0	0	0
(Increase)/decrease in investments	85	382	0	0	0
Net cash used in investing activities	(985)	(543)	(1,217)	(895)	(634)
Financing activities					
Dividends paid	(941)	(955)	(1,173)	(1,749)	(1,951)
Dividends paid to minorities	(65)	(93)	(291)	(273)	(303)
New loans	1,140	0	0	0	0
Issue of bonds	0	0	0	0	0
Repayment of loans	(1,130)	(104)	(104)	(104)	0
Repayment of bonds	0	0	0	0	0
Capital injection from minorities	0	0	0	0	0
Net cash generated from financing	(997)	(1,152)	(1,568)	(2,126)	(2,254)
Net increase (decrease) in cash	2	841	618	753	999
Cash at beginning of yr	722	724	1,565	2,182	2,935
Cash at end of yr	724	1,565	2,182	2,935	3,934

E = Morgan Stanley Research estimates

Source: Company data, Morgan Stanley Research

	<p>Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.</p>
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Industry Coverage: China Transportation

Company (Ticker)	Rating (as of)	Price (08/22/2007)
Jim Lam		
COSCO Pacific (1199.HK)	O (02/08/2007)	HK\$19.08
China COSCO (1919.HK)	E (03/30/2007)	HK\$13.14
China Merchants Hldg Intl (0144.HK)	O (02/08/2007)	HK\$37.1
China Shipping CL (2866.HK)	O (02/28/2007)	HK\$6.08
China Shipping Development (1138.HK)	E (11/03/2006)	HK\$18.98
Guangshen Railway (0525.HK)	U (05/03/2007)	HK\$5.71
Sinotrans Limited (0598.HK)	O (09/04/2006)	HK\$3.39
Tianjin Port Development Holdings Ltd (3382.HK)	O (07/24/2007)	HK\$5.1
Ernest Song, CFA		
Guangzhou Baiyun Int'l Airport (600004.SS)	O (04/10/2007)	Rmb20.25
Shanghai International Airport Co., Ltd. (600009.SS)	E (03/05/2007)	Rmb40.31
Shenzhen Airport (000089.SZ)	E (07/09/2007)	Rmb11.66
Xiamen Airport (600897.SS)	O (06/19/2007)	Rmb19.27
Edward H Xu, CFA		
Beijing Capital Int'l Airport (0694.HK)	O (03/06/2007)	HK\$11.72
Hainan Meilan Int'l Airport (0357.HK)	U (04/12/2007)	HK\$6.98
Hopewell Highway Infrastructure (0737.HK)	E (08/13/2007)	HK\$6.68
Jiangsu Expressway Company Limited (0177.HK)	O (12/18/2006)	HK\$7.25
TravelSky Technology (0696.HK)	O (03/13/2007)	HK\$5.98
Zhejiang Expressway Company (0576.HK)	O (04/17/2007)	HK\$9.1

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