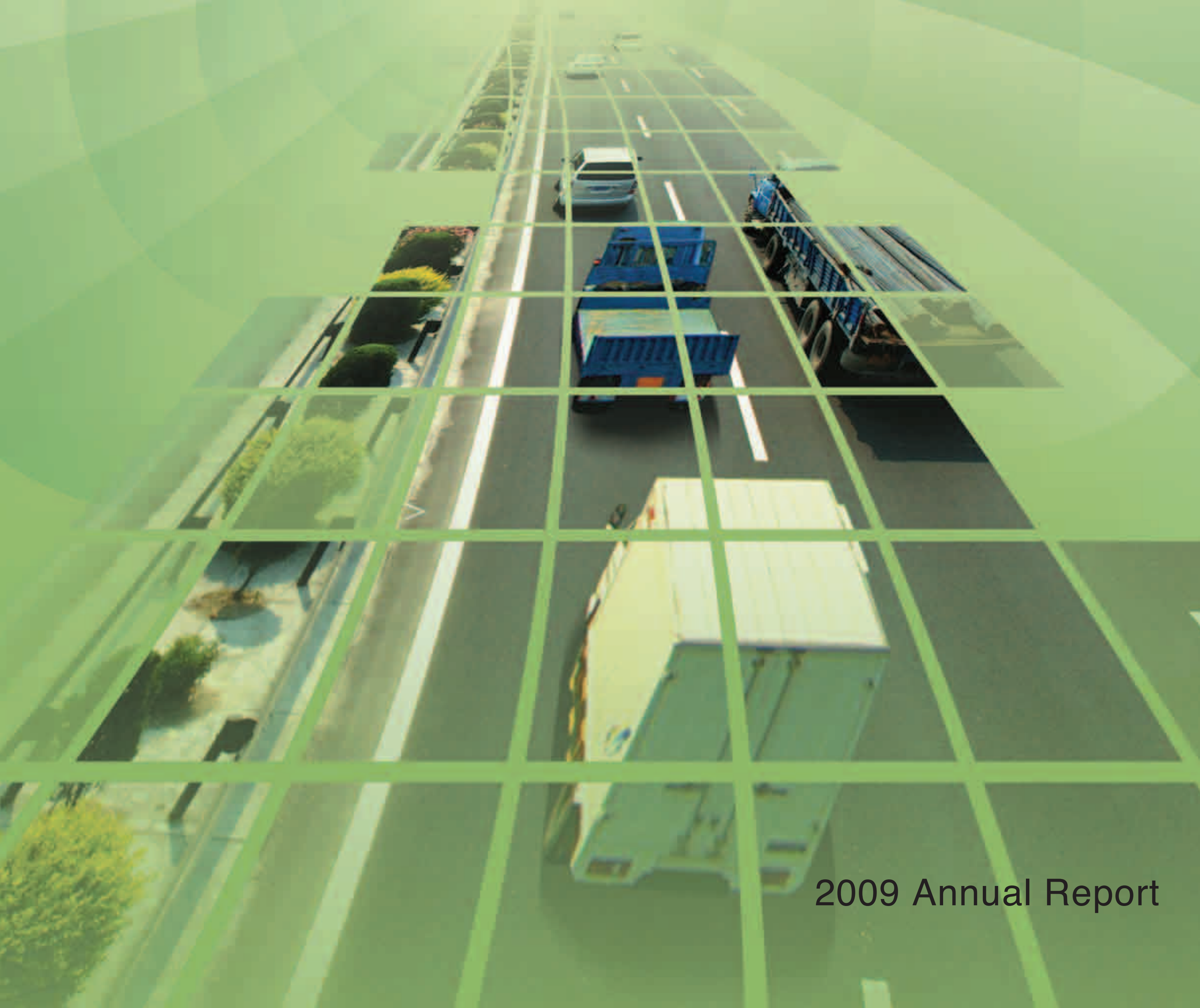
浙江滬杭甬高速公路股份有限公司

ZHEJIANG EXPRESSWAY CO., LTD.

Stock Code : 0576

Leveraging Opportunities,

# Pursuing Growth



2009 Annual Report

# Leveraging Opportunities, Pursuing Growth

As we have passed 2009 which was perhaps the toughest year since we had entered the new century, the economies of China and Zhejiang Province are gradually re-climbing to a recovery. Various businesses of the Company improved gradually, and the Company also underwent a smooth transition of board sessions. For 2010, however, uncertainties of the external economic environment still remain, and so the coming year still presents a lot of challenges to Zhejiang Expressway.

Meanwhile, we are also faced with various opportunities: the State continues its efforts in pushing forward steady and moderately rapid economic growth; China's securities market will gradually introduce various derivative products; the opening of Shanghai World Expo will take place; and the Disneyland construction project will soon commence. Committed to overcoming various difficulties, Zhejiang Expressway will continue to leverage opportunities and pursue growth, further enhancing the capabilities of the Company.

# Contents



# Definition of Terms

| | |
|---|---|
| **ADR(s)** | American Depositary Receipt(s) |
| **ADS(s)** | American Depositary Share(s) |
| **Advertising Co** | Zhejiang Expressway Advertising Co., Ltd.（浙江高速廣告有限責任公司）, a 70% owned subsidiary of Development Co |
| **Audit Committee** | the audit committee of the Company |
| **Board** | the board of directors of the Company |
| **Company or Zhejiang Expressway** | Zhejiang Expressway Co., Ltd., a joint stock limited company incorporated in the PRC with limited liability on March 1, 1997 |
| **Communications Group** | Zhejiang Communications Investment Group Co., Ltd.（浙江省交通投資集團有限公司）, a wholly State-owned enterprise established on December 29, 2001 |
| **Development Co** | Zhejiang Expressway Investment Development Co., Ltd.（浙江高速投資發展有限公司）, a 51% owned subsidiary of the Company |
| **Directors** | the directors of the Company |
| **GDP** | gross domestic product |
| **Group** | the Company and its subsidiaries |
| **H Shares** | the overseas listed foreign shares of Rmb1.00 each in the share capital of the Company which are primarily listed on the Hong Kong Stock Exchange and traded in Hong Kong dollars since May 15, 1997 |
| **Hong Kong Stock Exchange** | The Stock Exchange of Hong Kong Limited |
| **Huajian** | Huajian Transportation Economic Development Center（華建交通經濟開發中心）, a State-owned enterprise |
| **Jiaxing Co** | Zhejiang Jiaxing Expressway Co., Ltd.（浙江嘉興高速公路有限責任公司）, a 99.9995% owned subsidiary of the Company |
| **Jinhua Co** | Zhejiang Jinhua Yongjin Expressway Co., Ltd.（浙江金華甬金高速公路有限公司）, a 23.45% owned associate of the Company |
| **JoinHands Technology** | JoinHands Technology Co., Ltd.（中恒世紀科技實業股份有限公司）, a 27.582% owned associate of the Company |

| | |
|---|---|
| **Listing Rules** | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| **Period** | the period from January 1, 2009 to December 31, 2009 |
| **Petroleum Co** | Zhejiang Expressway Petroleum Development Co., Ltd. (浙江高速石油發展有限公司), a 50% owned associate of the Company |
| **PRC** | the People's Republic of China |
| **Rmb** | Renminbi, the lawful currency of the PRC |
| **Services Co** | Zhejiang Expressway Vehicle Towing and Rescue Services Co., Ltd. (浙江高速公路清障施救服務有限公司), a 85% owned subsidiary of Development Co |
| **Shangsan Co** | Zhejiang Shangsan Expressway Co., Ltd. (浙江上三高速公路有限公司), a 73.625% owned subsidiary of the Company |
| **Shareholders** | the shareholders of the Company |
| **Shida Co** | Hangzhou Shida Highway Co., Ltd. (杭州石大公路有限公司) |
| **Supervisory Committee** | the supervisory committee of the Company |
| **Yuhang Co** | Zhejiang Yuhang Expressway Co., Ltd. (浙江余杭高速公路有限責任公司), a 51% owned subsidiary of the Company |
| **Zheshang Securities** | Zheshang Securities Co., Ltd. (浙商證券有限責任公司), a 70.46% owned subsidiary of the Shangsan Co |

# Company Profile

Zhejiang Expressway is an infrastructure company principally engaged in investing in, developing and operating high-grade roads. The Company and its subsidiaries also carry out certain ancillary businesses such as automobile servicing, operation of gas stations and billboard advertising along expressways, as well as the securities business.

Major assets under management include the 248km Shanghai-Hangzhou-Ningbo Expressway, the 142 km Shangsan Expressway, ancillary facilities along the two expressways, and Zheshang Securities. Both expressways are situated within Zhejiang Province in the PRC. As at December 31, 2009, total assets of the Company and its subsidiaries amounted to Rmb32,402.78 million.

The Company was incorporated on March 1, 1997 as the main vehicle of the Zhejiang Provincial Government for investing in, developing and operating expressways and Class 1 roads in Zhejiang Province.

Incorporated on December 29, 2001, Communications Group, the controlling shareholder of the Company, is a provincial-level communications company which is wholly-owned by the State and established by the Zhejiang Provincial Government. It mainly operates a diversity of businesses, such as investment, operations, maintenance, toll collection and ancillary services of expressways; construction and building of transportation project, ocean and coastal transport; as well as real estates. As at December 31, 2009, consolidated assets of Communications Group totaled Rmb137,874.18 million.

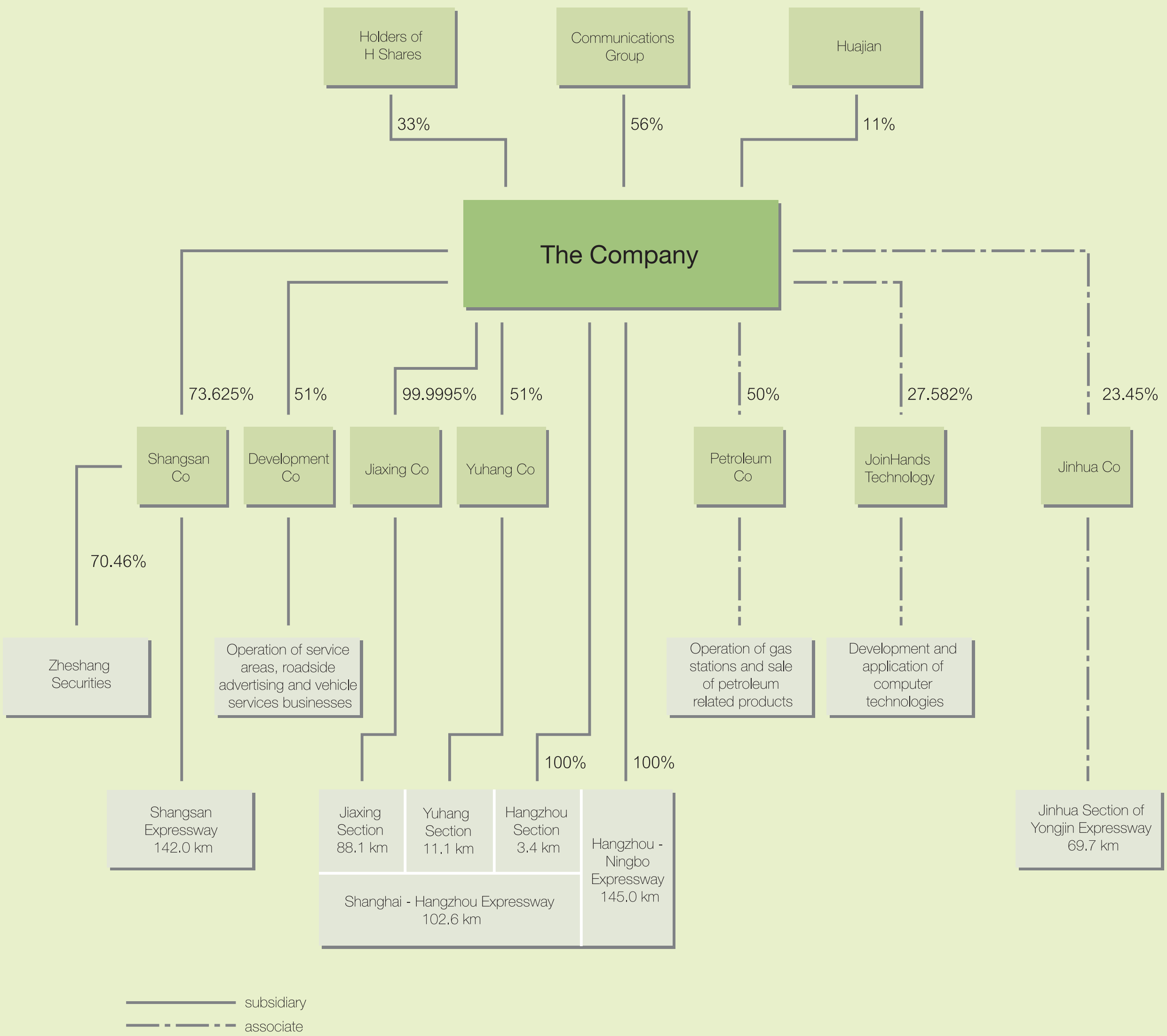
The H Shares of the Company, which represent approximately 33% of the issued share capital of the Company, were listed on the Hong Kong Stock Exchange on May 15, 1997, and the Company subsequently obtained a secondary listing on the London Stock Exchange on May 5, 2000.

On February 14, 2002, a Level I American Depositary Receipt program sponsored by the Company in respect of its H Shares, with the Bank of New York as the depositary, was established in the United States and became effective.

On August 12, 2005, a 10-year corporate bond of the Company, issued on January 24, 2003, was listed on the Shanghai Stock Exchange.

With good performance on the Group's existing expressways operation, the Company will capitalize on all opportunities of investment and acquisition of new projects, aiming to develop itself into a first-class expressway operator in China. In addition, the Company will also endeavor to enhance its core competitiveness in the securities business, expanding its operation network thereby increasing its profit contribution to the Group.

Set out below is the corporate and business structure of the Group:



# Review of Major Corporate Events

1. On February 27, 2009, the Company convened an extraordinary general meeting to elect and appoint members of the 5th Board of Directors and the Supervisory Committee of the Company, and approve the remuneration of all directors and supervisors. The term of the 5th Board of Directors and the Supervisory Committee is for a period of three years from March 1, 2009 to February 29, 2012.

2. On February 27, 2009, the Company convened the first meeting of the 5th Board of Directors to elect Mr. Chen Jisong as Chairman of the Company and appoint him as Chairman of the Strategy Committee, Mr. Tung Chee Chen as Chairman of the audit committee and Ms. Zhang Luyun as Chairwoman of the Nomination and Remuneration Committee. At the meeting, the Company also appointed other senior management members including the appointment of Mr. Zhan Xiaozhang as General Manager of the Company, with a term of office of three years from March 1, 2009 to February 29, 2012.

3. On March 10, 2009, the Company announced the 2008 annual results in Hong Kong, and thereafter conducted its annual results presentations in Hong Kong, Singapore, the U.S and Europe.

4. On May 4, 2009, the Company convened its 2008 annual general meeting. The meeting approved the distribution of a final dividend of Rmb 0.24 per share, the re-appointment of Deloitte Touche Tohmatsu Certified Public Accountants Hong Kong as the Hong Kong auditors of the Company, and the reappointment of Pan-China Certified Public Accountants Ltd. as the PRC auditors of the Company.

5. On May 4, 2009, the Company announced its 2009 first quarterly results.

6. On August 11, 2009, the Company announced its 2009 interim results in Hong Kong, and thereafter conducted its interim results presentations in Hong Kong.

7. On September 10, 2009, the Company signed an agreement with Hangzhou Communications Group Co., Ltd pursuant to which the Company transferred to such investment company all 50% of its interest in Shida Co at a consideration of Rmb367.00 million.

8. On September 29, 2009, the Company convened a 2009 extraordinary general meeting. The meeting approved the distribution of an interim dividend of Rmb 0.06 per share.

9 On November 18, 2009, the Company announced its 2009 third quarterly results.

# Particulars of Major Road Projects

| Expressway | Percentage of Ownership | Length in Kilometers | Number of Lanes | Number of Toll Stations | Number of Service Areas | Start of Operation | Remaining Years of Operation |
|---|---|---|---|---|---|---|---|
| Shanghai-Hangzhou Expressway | | | | | | | |
| – Jiaxing Section | 99.9995% | 88.1 | 8 | 7 | 2 | 1998 | 19 |
| – Yuhang Section | 51% | 11.1 | 6 | 1 | 0 | 1995-1998 | 19 |
| – Hangzhou Section | 100% | 3.4 | 4 | 2 | 0 | 1995 | 19 |
| Hangzhou-Ningbo Expressway | | | | | | | |
| – Hangzhou to Hongken section | 100% | 16.0 | 4 | 1 | 0 | 1992 | 18 |
| – Hongken to Duantang section | 100% | 124.0 | 8 | 9 | 2 | 1995 | 18 |
| – Duantang to Dazhujia section | 100% | 5.0 | 4 | 1 | 0 | 1996 | 18 |
| Shangsan Expressway | 73.625% | 142.0 | 4 | 11 | 3 | 2000 | 21 |

## CURRENT TOLL RATES ON THE SHANGHAI-HANGZHOU-NINGBO EXPRESSWAY

| Vehicle Class | Classification Standard | Entrance Fee Rmb | Mileage Fee Rmb/km |
|---|---|---|---|
| 1 | Passenger vehicle with up to 20 seats | 5 | 0.45 |
| | Truck with tonnage of 2 tons or below | | |
| 2 | Passenger vehicle with seats above 20 and up to 40 | 10 | 0.80 |
| | Truck with tonnage of above 2 tons and up to 5 tons | | |
| 3 | Passenger vehicle with seats above 40 | 15 | 1.20 |
| | Truck with tonnage of above 5 tons and up to 10 tons | | |
| 4 | Truck with tonnage above 10 tons and up to 15 tons | 15 | 1.40 |
| 5 | Truck with tonnage above 15 tons | 20 | 1.60 |

## CURRENT TOLL RATES ON THE SHANGSAN EXPRESSWAY

| Vehicle Class | Classification Standard | Entrance Fee Rmb | Mileage Fee Rmb/km |
|---|---|---|---|
| 1 | Passenger vehicle with up to 20 seats | 5 | 0.40 |
| | Truck with tonnage of 2 tons or below | | |
| 2 | Passenger vehicle with seats above 20 and up to 40 | 10 | 0.80 |
| | Truck with tonnage of above 2 tons and up to 5 tons | | |
| 3 | Passenger vehicle with seats above 40 | 15 | 1.20 |
| | Truck with tonnage of above 5 tons and up to 10 tons | | |
| 4 | Truck with tonnage above 10 tons and up to 15 tons | 15 | 1.40 |
| 5 | Truck with tonnage above 15 tons | 20 | 1.60 |

# Financial and Operating Highlights

## RESULTS

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2006 | 2007 | 2008 | **2009** |
| | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 | **Rmb'000** |
| Revenue | 3,456,385 | 4,763,780 | 7,030,380 | 6,323,470 | **6,036,294** |
| Profit Before Tax | 2,264,662 | 2,742,927 | 4,332,533 | 2,934,079 | **3,084,128** |
| Income Tax Expense | (692,366) | (884,036) | (1,191,638) | (668,928) | **(840,055)** |
| Profit for the year | 1,572,296 | 1,858,891 | 3,140,895 | 2,265,151 | **2,244,073** |
| **Attributable to:** | | | | | |
| Equity holders of the Company | 1,431,192 | 1,652,871 | 2,415,965 | 1,892,787 | **1,795,488** |
| Minority interests | 141,104 | 206,020 | 724,930 | 372,364 | **448,585** |
| Earning Per Share (EPS) | 32.95 cents | 38.06 cents | 55.63 cents | 43.58 cents | **41.34 cents** |

## RETURN ON EQUITY (ROE)

| | 2005 | 2006 | 2007 | 2008 | **2009** |
|---|---|---|---|---|---|
| ROE | 12.78% | 13.90% | 18.27% | 13.83% | **12.66%** |

## MONTHLY AVERAGE DAILY FULL TRIP TRAFFIC VOLUME

| | Shanghai-Hangzhou-Ningbo Expressway | | | | Shangsan Expressway | | | |
|---|---|---|---|---|---|---|---|---|
| | 2006 | 2007 | 2008 | **2009** | 2006 | 2007 | 2008 | **2009** |
| January | 35,342 | 38,233 | 42,024 | **32,126** | 20,079 | 19,057 | 21,505 | **19,682** |
| February | 33,785 | 40,239 | 36,261 | **31,494** | 20,174 | 23,618 | 22,453 | **19,659** |
| March | 38,810 | 42,536 | 42,791 | **33,748** | 19,897 | 22,132 | 22,301 | **18,049** |
| April | 40,789 | 45,657 | 44,917 | **36,725** | 20,554 | 22,402 | 22,995 | **19,783** |
| May | 39,255 | 44,462 | 38,583 | **34,507** | 20,215 | 22,287 | 20,219 | **19,106** |
| June | 38,307 | 42,938 | 36,595 | **33,692** | 18,619 | 20,699 | 19,028 | **18,394** |
| July | 37,067 | 41,989 | 36,143 | **33,574** | 18,691 | 20,957 | 18,779 | **18,552** |
| August | 38,716 | 43,112 | 35,856 | **34,181** | 19,379 | 21,485 | 18,919 | **18,720** |
| September | 40,870 | 44,646 | 38,146 | **36,275** | 20,542 | 22,312 | 19,853 | **19,905** |
| October | 40,342 | 45,037 | 35,864 | **36,191** | 20,717 | 22,738 | 18,732 | **19,238** |
| November | 39,486 | 44,238 | 32,792 | **33,623** | 19,428 | 21,503 | 17,043 | **16,724** |
| December | 39,375 | 42,840 | 32,251 | **34,596** | 19,136 | 20,833 | 16,493 | **17,277** |
| Average | 38,536 | 43,001 | 37,688 | **34,241** | 19,783 | 21,652 | 19,895 | **18,751** |

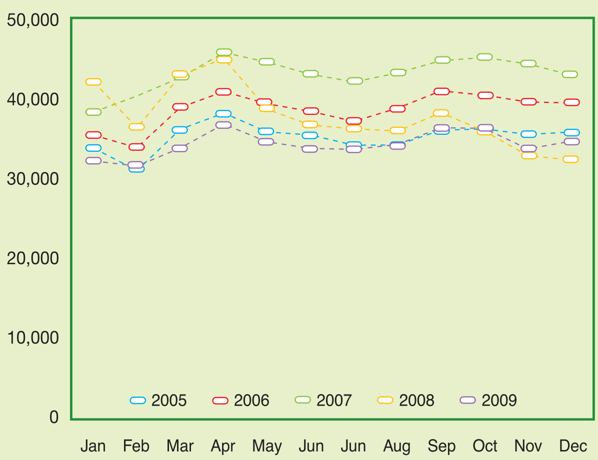
Revenue (Rmb Million)


Net profit (Rmb Million)

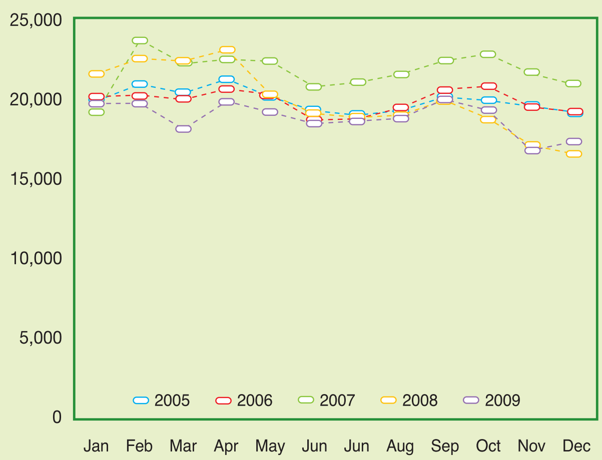

EPS (Rmb Cents)


ROE (%)


Monthly average daily full-trip traffic volume on Shanghai-Hangzhou-Ningbo Expressway




Monthly average daily full-trip traffic volume on Shangsan Expressway



# Chairman's Statement

Chairman
**Chen Jisong**

In 2009, Zhejiang Expressway has successfully overcome various difficulties with the concerted efforts of the new management and all staff. Year 2010 will be a pioneering and groundbreaking year for Zhejiang Expressway. Staff from all levels will combine forces and endeavor to assist the Company to cope with various challenges. The management will strive to identify opportunities and actively develop new businesses, so as to ensure continued growth of the Company.

Dear Shareholders,

## *Expanding Our Business Platform with Combined Forces*

I am pleased to report your company's operating results for year 2009. For the year ended 31 December 2009, Zhejiang Expressway Company Limited recorded a total revenue of Rmb6,036.29 million (2008: Rmb6,323.47 million), while net profit was Rmb1,795.49 million (2008: Rmb1,892.79 million) with earnings per share of Rmb41.34 cents (2008: Rmb43.58 cents). Given various difficulties and challenges facing the Company during 2009, your management team feels consoled with the fact that we were able to contain the declines at single digits. We are also confident to say that the arduous work that we have done in 2009 should help us consolidate and expand our business platform for capturing the opportunities lying ahead of us in the future.

Year 2009 was indeed a year impacted by both economic downturn and traffic diversions. Plagued with a weak economy inherited from 2008, the impact of the global financial crisis lingered on during the first-half. Secondly, the sluggish economy of Zhejiang Province, a province relying heavily on foreign trade, has resulted in a decline in transportation demand. Thirdly, the impact of traffic diversions, especially due to the openings of the Hangpu Expressway and the Hangzhou Bay Bridge, continued to affect our operation during the initial part of 2009.

However, as we now look backward to 2009, we are pleased to see that solid operating results were achieved for the year, primarily owing to the effective macro-control strategies adopted by the State, a rebounded market and concerted efforts by all our staff in controlling costs and maximizing revenue. As a result of the pro-active fiscal policies and relatively relaxed monetary policies adopted by the State, China's economy made a significant rebound during the latter months of 2009, which has created a positive operating environment for both our expressway and securities operations. Meanwhile, traffic diversions that have been affecting our expressways since 2008 started to stabilize during the year, and organic traffic growth started to emerge for our two expressways. We are also pleased to see that the securities business of Zheshang Securities rode on the stock market boom and achieved stellar performance in 2009, so much so that it now contributed 18% of the Group's profit.

# Chairman's Statement

After two years of consolidation, I must say that Zhejiang Expressway is now poised for renewed growth. First of all, the continued recovery of the Chinese economy and the surge of car ownership in the country have positioned the core business of Zhejiang Expressway to grow further. Secondly, for traffic growth on Zhejiang Expressway's two key assets, the diversion impact caused by the Hangpu Expressway and the Hangzhou Bay Bridge is stabilizing, while the completion of expansion works on the Shanghai section of the Shanghai-Hangzhou-Ningbo Expressway is expected to bring back previously diverted traffic to the expressway. True, the nearby to-be-opened Shenjia Huhang Expressway and Zhuyong Expressway may cause traffic diversions to our expressways during the latter part of 2010. But we anticipate that overall speaking, the organic traffic growth generated on our expressways will outweigh the impact of such diversions. Last but not least, our securities business is expected to shine further: As it continues to expand its operations network as well as its business scope and product range, Zheshang Securities is set to continue to contribute fine operating results to the Group.

Your company will continue to identify suitable investment opportunities in toll expressway operations so as to fuel future growth. One source of such opportunities lies in the parent company, Zhejiang Communications Investment Group Co., Ltd. (Communications Group). Communications Group has controlling stakes in more than 70% of expressways operating within the province under its wing. Some of these expressways may be good acquisition candidates for the Company, provided their investment returns are deemed to satisfy the Company's yardstick. Zhejiang Expressway and Communications Group will also benefit from other synergies through working closely together: Communications Group will gain from Zhejiang Expressway's capital financing capability and experience, in particular the latter's expressway and service area management experience; Zhejiang Expressway will gain from the expressway resources of Communications Group when it comes to investment and acquisition; Zhejiang Expressway will also benefit from Communications Group's good relations with government authorities when it comes to seeking relevant approvals and support, support that Zhejiang Expressway will very much need for its endeavor to become a top toll road investment and management company in China.

As a chairman of both Zhejiang Expressway and Communications Group, I am keen to see that the above-said synergies will eventually benefit our shareholders. The Company is now poised to expand its business platform, and with the combined forces of both companies, I am confident that we will go far and well.

**Chen Jisong**
*Chairman*
March 14, 2010

# Toll Road Business

The core business of toll road operations has been gradually improving in 2009 after having experienced the challenges of an economic downturn and traffic diversions. Faced with an ever-improving road network nearby and fierce competition of the industry, the Company will continue to develop new technologies on road maintenance and toll collection and enhance service quality. It will also pursue acquisitions of suitable assets from the parent company, so as to strengthen Zhejiang Expressway's core business and pursue long-term development of the Company.

# Management Discussion and Analysis

Director and General Manager

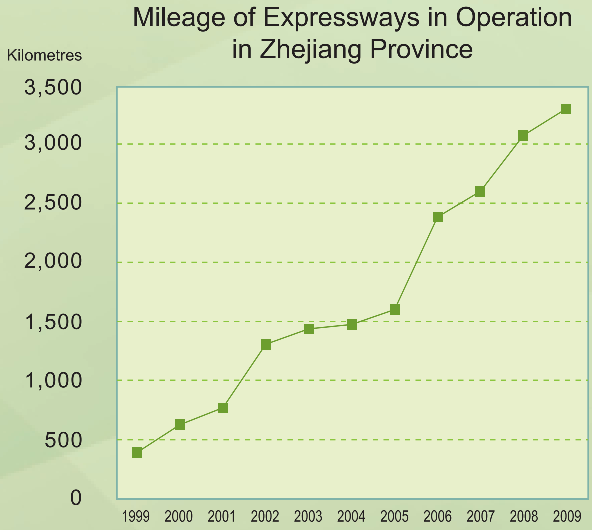
**ZHAN Xiaozhang**

## BUSINESS REVIEW

Following the upturn of the overall global economy in 2009, the Chinese economy has gradually stepped out of the shadow of the international financial crisis, with its economic growth accelerating quarter by quarter. The national GDP of China rose 8.7% year-on-year in 2009 and is still maintaining a stable and relatively rapid growth. Although weak external demands hindered export growth in Zhejiang Province which relies heavily on trade, its economy showed a significant recovery as it benefitted from the country's overall economic recovery. GDP in Zhejiang Province rose 8.9% during the Period as compared to the same period last year.

GDP Growth Rate

Despite a significant rebound in the domestic macro-economy, due to various unfavorable factors including traffic diversions caused by nearby dense road networks and the partial closure of the Shanghai section of the Group's Shanghai-Hangzhou Expressway for construction, both traffic volumes and toll incomes generated on the Group's two expressways declined as compared to the same period last year. During the Period, the Group realized a total income of Rmb6,238.76 million, representing a decrease of 4.2% year-on-year; of which Rmb3,211.39 million was attributable to the two major expressways operated by the Group, representing 51.5% of the total income. Rmb1,274.67 million was attributable to the Group's related businesses such as service area operations, gas stations, advertising business and so forth, representing 20.4% of the total income; and Rmb1,752.70 million was attributable to the securities business, representing 28.1% of the total income.




A breakdown of the Group's income for the Period is set out below:

| | 2009 Rmb'000 | 2008 Rmb'000 | % Change |
|---|---|---|---|
| Toll income | **3,211,391** | 3,569,746 | -10.0% |
| Shanghai-Hangzhou-Ningbo Expressway | **2,451,957** | 2,758,286 | -11.1% |
| Shangsan Expressway | **759,434** | 811,460 | -6.4% |
| Other income | **1,274,673** | 1,766,002 | -27.8% |
| Service areas | **1,185,813** | 1,679,593 | -29.4% |
| Advertising | **85,076** | 82,622 | 3.0% |
| Road maintenance | **3,784** | 3,787 | -0.1% |
| Securities business income | **1,752,697** | 1,174,465 | 49.2% |
| Commission | **1,582,623** | 1,006,737 | 57.2% |
| Bank interest | **170,074** | 167,728 | 1.4% |
| Subtotal | **6,238,761** | 6,510,213 | -4.2% |
| Less: Revenue taxes | **(202,467)** | (186,743) | 8.4% |
| Revenue | **6,036,294** | 6,323,470 | -4.5% |

# Securities Business

The Company will actively develop various businesses at Zheshang Securities by leveraging the opportunities brought by the State's continued proactive fiscal policies and moderately relaxed monetary policies, as well as the positive conditions brought by a continued and orderly development of the financial market. Through expanding the operation network, enhancing the brokerage business and building other businesses including investment banking, futures business and asset management, Zheshang Securities will actively push forward its development and thus bring greater contributions to the Company.

## TOLL ROAD OPERATIONS

A series of effective national stimulus policies in the country had led to an apparent rebound in China's macro-economy in 2009. However, as it is difficult for international market demands to rise significantly in a short period of time, weak external demands still affected the export trade of Zhejiang Province, resulting in decreases in traffic volume of cargo vehicles on the Group's two expressways during the Period.

Meanwhile, the Hangpu Expressway and the Hangzhou Bay Bridge, which were successively opened to traffic in early 2008 and early-May 2008, continued to affect the traffic volumes and toll incomes from the Shanghai-Hangzhou section of the Shanghai-Hangzhou-Ningbo Expressway and the Shangsan Expressway during the Period. In addition, the closure of the Shanghai section of the Shanghai-Hangzhou Expressway for its widening works, which commenced in mid-May 2009, resulted in negative impact on traffic volume and toll income from the two expressways.

As a result of these unfavorable factors, traffic volumes and toll incomes from the Group's two expressways continued to decline over the same period of 2008. Fortunately, the organic growth in traffic volume along the Shanghai-Hangzhou-Ningbo Expressway and the Shangsan Expressway has shown a gradual recovery on a month-by-month basis, more apparent in the second half of 2009. In particular, in the fourth quarter of 2009, daily traffic volume along various sections of the Shanghai-Hangzhou-Ningbo Expressway and the Shangsan Expressway have recorded year-on-year growth to different extent.

The dual-path identification system for expressways in Zhejiang Province launched in mid-October 2009 resulted in negative impact on the traffic volume along the Group's Shangsan Expressway while having positive impact on the traffic volume along the Shanghai-Hangzhou-Ningbo Expressway. Overall, a slight decline has been recorded for toll income of the two expressways as a result of the implementation of such system during the Period.

Consequently, the average daily traffic volume in full-trip equivalents along the Shanghai-Hangzhou-Ningbo Expressway was 34,241 during the Period, representing a decrease of 9.2% year-on-year. In particular, the average daily traffic volume in full-trip equivalents along the Shanghai-Hangzhou section of the Shanghai-Hangzhou-Ningbo Expressway was 33,037, a decrease of 13.0% year-on-year, and that along the Hangzhou-Ningbo section was 35,102, a decrease of 6.3% year-on-year. The average daily traffic volume in full-trip equivalents along the Shangsan Expressway was 18,751 during the Period, representing a decrease of 5.8% year-on-year.

Total toll income from the 248km Shanghai-Hangzhou-Ningbo Expressway and the 142km Shangsan Expressway amounted to Rmb3,211.39 million during the Period, representing a decrease of 10.1% year-on-year. In respect of such income, toll income from the Shanghai-Hangzhou-Ningbo Expressway amounted to Rmb2,451.96 million, a decrease of 11.1% year-on-year, while toll income from the Shangsan Expressway amounted to Rmb759.43 million, a decrease of 6.4% year-on-year.

## TOLL ROAD-RELATED BUSINESS OPERATIONS

The Company also operates certain toll road-related businesses along its expressways through its subsidiaries and associated companies, including gas stations, restaurants and shops in service areas, as well as roadside advertising and vehicle service businesses.

During the Period, with continued declines in traffic volume along the Group's two expressways, together with the opening of the Hangzhou Bay Bridge which has resulted in substantial diversions in traffic volume from the Shanghai-Hangzhou-Ningbo Expressway for large and small vehicles travelling to and from Shanghai, the loss of traffic volumes has brought about negative impact on the operations of the service areas. In particular, the sales of petroleum products were substantially affected by the decline in traffic volume of passenger and cargo vehicles. As a result, income from toll road-related businesses amounted to Rmb1,285.92 million during the Period, representing a year-on-year decrease of 27.8%.

## SECURITIES BUSINESS

Benefiting from the proactive fiscal policies and continued relaxed monetary polices implemented in the country, the domestic securities market rebounded significantly in 2009 ahead of the real economy. The stock indices recorded substantial increases, and the number of traders and trading volume rose significantly.

With the upturn in the securities market, competition among securities brokers intensified. Faced with an intense competitive environment, Zheshang Securities has been actively expanding various businesses and its market share of the brokerage business continued to rise, while total number of customers and customer assets managed also saw notable growth. In addition, Zheshang Securities achieved new profit growth through adopting various business initiatives including optimizing the deployment of its operation network, strengthening the development of the new asset management business and vigorously expanding the futures business. In addition, its first integrated asset management program was approved by the China Securities Regulatory Commission at the end of 2009.

During the Period, Zheshang Securities realized an operating income of Rmb1,752.70 million, an increase of 49.2% year-on-year. Of such income, the brokerage commission income was Rmb1,582.62 million, a year-on-year increase of 57.2%; and bank interest income amounted to Rmb170.07 million, representing a year-on-year increase of 1.4%. In order to control risks, Zheshang Securities placed more than 90% of the investment of its proprietary securities business in bonds with relatively lower risks and therefore, the securities investment income as accounted for in the consolidated statement of comprehensive income was Rmb 35.29million.

## LONG-TERM INVESTMENTS

For Zhejiang Expressway Petroleum Development Co., Ltd. (a 50% owned associate company of the Company), during the Period, its operating revenue was affected by the decline in domestic petroleum prices. In 2009, the associate company realized sales income of Rmb2,685.35 million, representing a decrease of 12.8% year-on-year. In addition, except for the four new gas stations added in 2009, the Group carried out coordinated renovations of all of its gas stations, resulting in increases in rental expenses, labour costs and repair expenses accordingly. During the Period, net profit of the associated company was Rmb17.95 million, representing a decrease of 18.5% year-on-year.

During the Period, the 69.7km Jinhua Section of the Ningbo-Jinhua Expressway, operated by Zhejiang Jinhua Yongjin Expressway Co., Ltd. (a 23.45% owned associate company of the Company), was affected by various factors such as traffic diversions caused by nearby new road networks and inaccurate path identification system. It recorded an average daily traffic volume of 7,166 in full-trip equivalents along the expressway; while toll income amounted to Rmb138.35 million, a decrease of 4.0% year-on-year. Further, due to its heavy financial burden, the associate company incurred a loss of Rmb115.84 million during the Period.

JoinHands Technology Co., Ltd. (a 27.582% owned associate company of the Company) generated its income primarily from its printing operations and property leasing during the Period. Due to a lack of improvement in its operations, the associate company incurred a loss of Rmb3.05 million during the Period.

During the Period, Rmb21.25 million was generated by Hangzhou Shida Highway Co., Ltd (a 50% owned jointly-controlled entity of the Company) which operates the 9.45km Shida Road. The high cost of the road widening project of Shida Road completed in the end of 2007 led to the failure to meet the internal rate of return required by the Company. The Company entered into an agreement with Hangzhou Communications Group Co., Ltd ("HCG") on September 10, 2009 whereby all 50% of shares held by the Company in Shida Co. was transferred to HCG at a consideration of Rmb367.00 million. An investment income gain of approximately Rmb274.49 million was generated from the transfer.

## FINANCIAL ANALYSIS

The Group adopts a prudent financial policy with an aim to provide shareholders with sound returns over the long-term.

During the Period, profit attributable to owners of the Company for the year was approximately Rmb1,795.49 million, representing a decrease of 5.1% year-on-year, while earnings per share for the Company was Rmb41.34 cents.

### LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2009, current assets of the Group amounted to Rmb17,903.78 million in aggregate (2008: Rmb10,450.20 million), of which bank balance and cash accounted for 29.5% (2008: 38.8%), bank balances held on behalf of customers accounted for 64.4% (2008: 54.0%) and held-for-trading investments accounted for 2.9% (2008: 2.4%). Current ratio (current assets over current liabilities) as at December 31, 2009 was 1.3 (2008: 1.4). Excluding the effect of customer deposits arising from the securities business, the resultant current ratio of the Group (current assets less balance of cash held on behalf of customers over current liabilities less balance of customer deposits arising from securities dealings ) of the Group was 2.6 (2008: 2.6).

| | As at December 31, | |
|---|---|---|
| | **2009** | 2008 |
| | **Rmb'000** | Rmb'000 |
| Cash and cash equivalent | | |
| Rmb | **5,018,914** | 3,710,493 |
| US$ in Rmb equivalent | **25,423** | 22,668 |
| HK$ in Rmb equivalent | **4,666** | 3,784 |
| Time deposits- Rmb | **228,452** | 284,068 |
| Held-for-trading investments-Rmb | **517,895** | 247,587 |
| Available-for-sale investments- Rmb | **54,704** | 28,001 |
| Structure deposit- Rmb | **—** | 204,667 |
| Total | **5,850,054** | 4,501,268 |
| Rmb | **5,819,965** | 4,474,816 |
| US$ in Rmb equivalent | **25,423** | 22,668 |
| HK$ in Rmb equivalent | **4,666** | 3,784 |

The amount for held-for-trading investments of the Group as at December 31, 2009 amounted to Rmb517.90 million (2008: Rmb247.59 million), of which 98.7% was invested in corporate bonds, 0.1% was invested in the stock market, while the rest was invested in open-end equity funds.

During the Period, net cash inflow generated from the Group's operating activities amounted to Rmb2,994.48 million, representing an increase of 18.9%.

The Directors do not expect the Company to experience any problem with liquidity and financial resources in the foreseeable future.

### BORROWINGS AND SOLVENCY

As at December 31, 2009, total liabilities of the Group amounted to Rmb15,337.93 million, of which 10.6% was borrowings and 75.0% was customer deposits arising from securities dealings.

Total interest-bearing borrowings of the Group as at December 31, 2009 amounted to Rmb1,622.38 million, representing an increase of 0.8% over the beginning of the year. The borrowings comprised outstanding balances of the World Bank loans, denominated in US dollar, of approximately Rmb422.38 million in Renminbi equivalent, loans from domestic commercial banks totaling Rmb200.00 million; and corporate bonds amounting to Rmb1 billion that was issued by the Company in 2003 for a term of 10 years. Of the interest-bearing borrowings, 70.5% were not repayable within one year.

| | | Maturity Profiles | | |
|---|---|---|---|---|
| | Gross amount | Within 1 year | 2-5years inclusive | Beyond 5 years |
| | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 |
| Floating rates | | | | |
| World Bank loan | 422,384 | 278,055 | 144,329 | — |
| Fixed rates | | | | |
| Commercial bank loans | 200,000 | 200,000 | — | — |
| Corporate bonds | 1,000,000 | — | 1,000,000 | — |
| Total as at December 31, 2009 | 1,622,384 | 478,055 | 1,144,329 | — |
| Total as at December 31, 2008 | 1,609,764 | 380,897 | 1,228,867 | — |

As at December 31, 2009, the Group's loans from domestic commercial banks comprised 8-month and 1-year short-term loans, with interest rates fixed at 5.31% per annum; the annual coupon rate for corporate bonds was fixed at 4.29%, with interest payable annually. The annual interest rate for customer deposits arising from securities dealing was fixed at 0.36%; the annual floating rates of the Group's Rmb422.38 million World Bank loans, denominated in US dollar, were from 4.55% to 1.82 %.

Total interest expense for the Period amounted to Rmb62.72 million, while profit before interest and tax amounted to Rmb3,146.85 million and the interest cover ratio (profit before interest and tax over interest expenses) stood at 50.2 (2008: 39.2).

| | 2009 | 2008 |
|---|---|---|
| | Rmb'000 | Rmb'000 |
| Profit before tax and interest | 3,146,852 | 3,010,888 |
| Interest expenses | 62,724 | 76,809 |
| Interest cover ratio | 50.2 | 39.2 |

The asset-liability ratio (total liabilities over total assets) was 47.3% as at December 31, 2009 (December 31, 2008: 35.6%). Excluding the effect of customer deposits arising from the securities business, the resultant asset-liability ratio (total liabilities less balance of customer deposits arising from securities dealings over total assets less balance of cash held on behalf of customers) of the Group was 18.4% (December 31, 2008: 17.2%).

## CAPITAL STRUCTURE

As at December 31, 2009, the Group had Rmb17,064.85 million total equity, Rmb12,702.93 million fixed-rate liabilities, Rmb422.38 million floating-rate liabilities and Rmb2,212.61 million interest-free liabilities, representing 52.7%, 39.2%, 1.3% and 6.8% of the Group's total capital, respectively. The gearing ratio, which was computed by dividing the total liabilities less balance of customer deposits arising from securities dealing by total equity, was 22.5% as at December 31, 2009 (December 31, 2008: 20.8%).

| | As at December 31, 2009 | | As at December 31, 2008 | |
|---|---|---|---|---|
| | Rmb'000 | % | Rmb'000 | % |
| Total equity | 17,064,853 | 52.7% | 16,297,268 | 64.5% |
| Fixed rate liabilities | 12,702,930 | 39.2% | 6,674,873 | 26.4% |
| Floating rate liabilities | 422,384 | 1.3% | 542,364 | 2.1% |
| Interest-free liabilities | 2,212,614 | 6.8% | 1,773,016 | 7.0% |
| Total | 32,402,781 | 100.0% | 25,287,521 | 100.0% |
| Long-term interest-bearing liabilities | 1,144,329 | 3.5% | 1,228,867 | 4.9% |
| Gearing ratio 1 (Note) | | 22.5% | | 20.8% |
| Gearing ratio 2 (Note) | | 6.7% | | 7.5% |
| Asset-liability ratio 1 (Note) | | 47.3% | | 35.6% |
| Asset-liability ratio 2 (Note) | | 18.4% | | 17.2% |

Note: Gearing ratio 1 represents the total liabilities less customer deposits arising from securities dealing to the total equity; gearing ratio 2 represents the total amount of the long-term interest-bearing liabilities to the total equity; Asset-liability ratio 1 represents total liabilities to total assets; Asset-liability ratio 2 represents the total liabilities less customer deposits arising from securities dealing to the total assets less bank balances held on behalf of customers.

## CAPITAL EXPENDITURE COMMITMENTS AND UTILIZATION

Capital expenditures of the Group and of the Company for the Period totaled Rmb687.41 million and Rmb218.71 million, respectively, mainly with Rmb309.64 million incurred by the remaining construction work of widening project, Rmb200.00 million incurred by the ancillary facilities of expressways, Rmb113.24 million incurred by acquisition of equipment, Rmb46.04 million incurred by the acquisition and construction of properties and Rmb14.24 million incurred by the service area renovation and expansion.

Capital expenditures committed by the Group and by the Company as at December 31, 2009 totaled Rmb424.00 million and Rmb111.00 million, respectively. Amongst the total capital expenditures committed by the Group, Rmb216.00 million will be used on the acquisition and construction of properties, while Rmb128.00 million will be used for the acquisition of equipment and Rmb50.00 million will be used for the widening project between the Shaozhu hub and Shaojia hub of the Shangsan Expressway and Rmb30.00 million incurred by the service area renovation and expansion.

The Group will finance its above mentioned capital expenditure commitments mainly with internally generated cash flow, with a preference for debt financing to meet any shortfalls thereof.

## CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at December 31, 2009, the Group did not have any contingent liabilities or any pledge of assets.

## FOREIGN EXCHANGE EXPOSURE

Save for the repayment of a World Bank loan of Rmb422.38 million equivalent in US dollars, as well as dividend payments to overseas shareholders in Hong Kong dollars, the Group's principal operations are transacted and booked in Renminbi. Therefore, the Group's exposure to foreign exchange fluctuations is limited and the Group has not used any financial instrument for hedging purposes.

Although the Directors do not foresee any material foreign exchange risks for the Group, there is no assurance that foreign exchange risks will not affect the operating results of the Group in the future.

## HUMAN RESOURCES

As at December 31, 2009, there were 5,058 employees within the Group, amongst whom, 1,161 worked in the managerial, administrative and technical positions, while 3,897 worked in fields such as toll collection, maintenance, service areas, securities and futures business outlets.

The Company adopts a remuneration policy that aims to be competitive for attracting and retaining talents. Overall remuneration package for employees mainly comprised basic salaries, bonuses and benefits. Bonuses are designed to reflect individual job performances, as well as business and share price performances of the Group, while benefits for employees come in the form of contributions made by the Group to various local social security agencies covering pension, medical and accommodation concerns that are calculated as a percentage of employees' income and in accordance with relevant rules and regulations. The Company continued to implement the corporate annuity scheme during the Period, and total pension cost charged to the income statement during the Period amounted to Rmb33.24 million.

The remuneration level fixed by the Company is sufficient to attract and retain the directors required for its successful operation. All the directors did not participate in determining their emoluments to avoid payment of excessive remuneration.

## OUTLOOK

After having experienced in 2009 the toughest year since the beginning of the new century, the Chinese economy in general started to regain an uptrend momentum. It is expected that the economic growth environment in China will continue to see a steady growth in 2010. Similarly, subsequent to the severe impact caused by the global financial crisis in 2009, Zhejiang Province will strive to maintain steady economic development within the province through a series of policies aimed at stimulating consumption, adjusting industry structure and expanding exports. The Group's two expressways will also benefit from the recovery of the macro-economy. It is expected that there will be significant organic growth in traffic volume in 2010 while toll income for the year will resume growth.

As the diversions caused by the Hangpu Expressway and the Hangzhou Bay Bridge, which were opened to traffic in 2008, stabilized during the Period, it is expected that there will be no further diversions. With the completion of construction and closure of the Shanghai section of the Shanghai-Hangzhou Expressway at the end of 2009, it is expected that a certain percentage of traffic volumes will flow back to the Shanghai-Hangzhou-Ningbo Expressway. However, the successive openings to traffic of the Shenjia Huhang Expressway and the Zhuyong Expressway nearby in 2010 are expected to result in new traffic diversions for the Shangsan Expressway and certain sections of the Shanghai-Hangzhou-Ningbo Expressway, thereby reducing the Group's toll income accordingly.

Meanwhile, with the upcoming grand opening of the Shanghai World Expo in May 2010, and the eventual launch of the Shanghai Disneyland project, more vehicles are expected to travel on the Group's two expressways, thereby resulting in positive impact on the Group.

The toll-by-weight policy for trucks in Zhejiang Province, which aims at reducing overloading practices by trucks and thereby lowering long-term road maintenance costs, is expected to be implemented in the first half-year of 2010. This is expected to bring a slight positive impact on the Company's toll income. As the dual-path identification system has been launched since mid-October 2009, we expect the positive impact on the Shanghai-Hangzhou-Ningbo Expressway to outweigh the negative impact on the Shangsan Expressway brought by the system in the long run.

In 2010, the proactive fiscal policies implemented in our country will continue, and the approach of moderately relaxed monetary policies will not be changed. Although there are a number of uncertainties in the Chinese securities market, with the introduction of the GEM board and derivatives such as stock index futures as well as margin trading and securities lending in the country, Zheshang Securities will be making significant contributions to the Group in the future through an array of initiatives including expanding its operation network, enhancing its brokerage business and expanding its investment banking, futures and assets management businesses.

We are still faced with various unfavorable factors such as the complexities facing the recovery of both the international and domestic economies, the difficult situation facing Zhejiang Province's foreign trade in 2010, and competition brought by increasingly dense road networks in the province. With its primary business in toll road operations, the Company would thus be faced with various arduous tasks in 2010. The management will continue to make concerted efforts to meet the challenges. While strengthening and growing the expressway operation, it will also actively seek and cultivate new business growing areas and step up the process of investment and acquisition, so as to achieve good results for the Company and bring greater value to the shareholders.

# Long-term Investments

While strengthening the toll road business and expanding the securities business, Zhejiang Expressway also conducts a number of long-term investments. Apart from contributing additional incomes, such investments also bring synergies to the Company and its businesses, thereby enhancing the Group's competitiveness. The Company will continue to enhance its capital efficiency, with a view to unearthing more income platforms.

# Principal Risks and Uncertainties

## TOLL ROAD BUSINESS RISKS

### Economic environment

Various evidences have indicated that 2009, the year that was the most severely affected by the international financial crisis has gone. However, due to the complexities in both international and domestic economic recovery, coupled with weak foreign demands in Zhejiang Province in 2009 which led to apparent traffic diversions of goods vehicle from the Group's expressways. Based on such unfavorable factors, it is anticipated that the traffic growth of the Group's expressways remains pessimistic in the future. Operations, financial position and operating results of the Group may be adversely affected as a result.

### Competition

Although the traffic diversions brought by the openings of the Hangpu Expressway and the Hangzhou Bay Bridge tend to be stable, with the successive openings of the nearby Shenjia Huhang Expressway and the Zhuyong Expressway in 2010, it is expected to result in new traffic diversions for the Shangsan Expressway and certain sections of the Shanghai-Hangzhou-Ningbo Expressway. Therefore, we cannot guarantee traffic volume on the expressways under the Group will be maintained at the same level or increase in the future, and that the operating results of the Group will not be affected.

### Concession period extension

Since the expansion works of Shanghai-Hangzhou-Ningbo Expressway has been completed, we plan to apply for the extension of the concession period for the construction, management and toll collection of the Shanghai-Hangzhou-Ningbo Expressway. We cannot guarantee the Zhejiang Provincial Government will timely approve the application for extending the concession or that no material delays or serious difficulties will arise in the course of the application for extending the concession period, which may have an adverse impact on the operations, financial position and operating results of the Group.

### Toll-by-weight policy

Toll-by-weight policy for trucks is expected to be implemented in the first half-year of 2010. We anticipated that such policy will be implemented in Zhejiang Province. This means that tolls will be charged from trucks based on their weight. Although the impact of such measure is still uncertain, we cannot guarantee the Zhejiang Provincial Government will approve a charging policy for trucks which will not adversely affect the toll income of the Group.

### Dual path identification

As the dual path identification system implemented in mid-October 2009 had negative impact on the Group's Shangsan Expressway within the short period, we cannot guarantee that the implementation of such system will not have effect on the traffic volume growth and operating results.

## SECURITIES BUSINESS RISKS

### Market Fluctuations

Our securities business is susceptible to market fluctuates and may experience periods of high volatility accompanied by reduced liquidity and may be materially affected by economic and other factors such as global market conditions; the availability and cost of capital; the liquidity of global markets, the level and volatility of equity prices, commodity prices and interest rates currency values and other market indices; inflation, natural disasters; acts of war or terrorism; investor sentiment and confidence in the financial markets. There is no assurance that our securities business will not be adversely affected by fluctuations in the market, or that our securities business will continue to contribute to our overall profit margin.

### Regulation of Securities Business

We are subject to extensive regulations in the PRC in which we conduct our securities business and face the risk of intervention by the PRC regulatory authorities. We could be fined, prohibited from engaging in some of our business activities or subject to limitations or conditions on our business activities, among other things. Significant regulatory action against us could have material adverse financial effects, cause us significant reputational harm, or harm our business prospects. New laws or regulations or changes in the enforcement of existing laws or regulations applicable to our clients may also adversely affect our business.

## FINANCIAL RISKS

For financial risks and uncertainties of the Group, see notes 4, 5 and 6 to the Consolidated Financial Statements.

## RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT AND ACCOUNTS

The directors of the Company duly confirm that, to the best of their knowledge:

— the consolidated financial statements prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants give a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole; and

— the management discussion and analysis included in this annual report includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the Group faces.

Year 2010 up to now, there have been no substantial events that will have material impact on the normal operation of the Group.

For and on behalf of the Board
**ZHANG Jingzhong**
Executive Director/Deputy General Manager

Hangzhou, Zhejiang Province, the PRC
March 14, 2010

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Company has adopted its own Guidelines on Corporate Governance that closely followed the principles of good governance in Appendix 14 (“Appendix 14”) of the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange of Hong Kong Limited (“Stock Exchange”).

During the financial year 2009 (the “Period”), the Company had fallen short of giving notice of at least 14 days in one of the regular board meetings held due to uncertainties associated with resolutions to be proposed at the meeting.

Other than the above, the Company met all provisions in the Code on Corporate Governance Practices (the “Code”) in Appendix 14, and adopted the recommended best practices contained in the Code whenever applicable.

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Rules on Securities Dealings (“Rules on Securities Dealings”) for the directors, supervisors, senior management personnel and other employees of the Company on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) in Appendix 10 of the Listing Rules.

Upon specific inquiries to all the directors of the Company (the “Directors”), the Directors have confirmed their respective compliance with the required standards for securities transactions by directors as set out in the Model Code and the Rules on Securities Dealings during the Period.

## BOARD OF DIRECTORS OF THE COMPANY (THE “BOARD”)

The executive directors of the Company during the Period were:
Mr. CHEN Jisong *(Chairman)*
Mr. GENG Xiaoping *(Chairman, retired)*
Mr. ZHAN Xiaozhang *(General Manager)*
Mr. FANG Yunti *(General Manager, retired)*
Mr. JIANG Wenyao
Mr. ZHANG Jingzhong

The non-executive directors of the Company during the Period were:
Ms. ZHANG Luyun
Ms. ZHANG Yang

The independent non-executive directors of the Company during the Period were:
Mr. TUNG Chee Chen
Mr. ZHANG Junsheng
Mr. ZHANG Liping

During the Period, the Board held a total of six meetings: one by the fourth session of the Board, and five by the fifth session of the Board. Individual attendances by the directors (as indicated by the numbers of meetings attended/numbers of relevant meetings held) are as follows:

| | |
|---|---|
| Mr. CHEN Jisong *(Chairman)* | 5/5 |
| Mr. GENG Xiaoping *(Chairman, retired)* | 1/1 |
| Mr. ZHAN Xiaozhang *(General Manager)* | 5/5 |
| Mr. FANG Yunti *(General Manager, retired)* | 1/1 |
| Mr. JIANG Wenyao | 6/6 |
| Mr. ZHANG Jingzhong | 6/6 |
| Ms. ZHANG Luyun | 6/6 |
| Ms. ZHANG Yang | 6/6 |
| Mr. TUNG Chee Chen | 6/6 |
| Mr. ZHANG Junsheng | 6/6 |
| Mr. ZHANG Liping | 6/6 |

The Board is charged with duties as well as given powers that are expressly specified in the articles of association of the Company, the scope of which includes, amongst others: to determine the business plans and investment proposals of the Company; to prepare the financial budget and final accounts of the Company; to determine the dividend policy of the Company; to appoint or dismiss senior managerial officers of the Company as well as to determine their remuneration; and to draw up proposals for any material acquisition or sale by the Company.

To assist the Board effectively discharge its duties, the Board has set up three special committees: the Audit Committee, the Nomination and Remuneration Committee, and the Strategic Committee.

While the Board fully retains its power to decide on matters within its scope of duties and powers, relevant preparation and drawing up of plans or proposals were usually delegated to the management.

The Company has complied with the requirements under Rules 3.10(1) and (2) of the Listing Rules regarding the appointment of independent non-executive directors, with three independent non-executive directors appointed, at least one of whom possessing the appropriate professional qualification or accounting or related financial management expertise.

Pursuant to Rule 3.13 of the Listing Rules, the Company had specifically inquired all three independent non-executive directors and received their respective confirmation of independence during the Period. The three independent non-executive directors have all confirmed their compliance with requirements regarding independence under Rule 3.13 of the Listing Rules. The Company still considers the independent non-executive directors to be independent.

There were no financial, business, family or other material/relevant relationships between members of the Board, including that between the Chairman and the General Manager of the Company.

## CHAIRMAN AND GENERAL MANAGER

During the Period, Mr. CHEN Jisong and Mr. GENG Xiaoping (retired) were Chairman of the Company, while Mr. ZHAN Xiaozhan and Mr. FANG Yunti (retired) were General Manager of the Company. The roles of Chairman and General Manager are fully segregated as expressly set out in the articles of association of the Company.

## NON-EXECUTIVE DIRECTORS

The non-executive directors of the Company are appointed for a period of three years, from March 1, 2009 to February 29, 2012.

## NOMINATION AND REMUNERATION OF DIRECTORS

The Board has a Nomination and Remuneration Committee, mainly responsible for reviewing and making recommendations for the selection standards and procedures for Directors, General Manager and other senior management of the Company; identifying qualified candidates and making reviews and recommendations thereon; and determining, supervising and monitoring the implementation of the remuneration policies for the Directors and senior management personnel. For the details of its terms of reference, please refer to the "Corporate Governance" section in the Company's web site.

The Nomination and Remuneration Committee comprised of five non-executive directors, namely, Ms. ZHANG Luyun, Ms. ZHANG Yang, Mr. TUNG Chee Chen, Mr. ZHANG Junsheng, and Mr. ZHANG Liping, with Ms. ZHANG Luyun as the Chairwoman of the committee starting from March 1, 2009.

During the Period, the Nomination and Remuneration Committee met for one meeting to review and recommend candidates for the fifth session of the Board and the Supervisory Committee, including the recommended remunerations thereof.

## AUDITORS' REMUNERATION

During the Period, the Company had paid HK$3,800,000 (Rmb3,310,000 equivalent) and Rmb820,000 to Deloitte Touche Tohmatsu Certified Public Accountants (the Hong Kong auditors) and Pan-China Certified Public Accountants Ltd. (the PRC auditors) for audit services conducted in 2008, respectively. The auditors had provided no other non-audit services to the Company.

## AUDIT COMMITTEE

The Board has an Audit Committee which is mainly responsible for providing advice to the Board regarding the appointment, reappointment and removal of external auditors; the supervision of the integrity of the Company's financial statements and annual reports and accounts, half-yearly and quarterly reports, and the review of important opinions in relation to financial reporting as set out in statements and reports, and the review of the Company's financial control, internal control and risk management system. For the details of its terms of reference, please refer to the "Corporate Governance" section in the Company's web site.

The Audit Committee comprised of five non-executive directors, three of whom are independent non-executive directors, namely Mr. TUNG Chee Chen, Mr. ZHANG Junsheng and Mr. ZHANG Liping, and the remaining two are non-executive directors, namely Ms. ZHANG Luyun and Ms. ZHANG Yang, with Mr. TUNG Chee Chen as the Chairman of the committee.

During the Period, the Audit Committee held a total of four meetings. Individual attendances by the members of the committee (as indicated by the numbers of meetings attended/numbers of meetings held) are as follows:

| | |
|---|---|
| Mr. TUNG Chee Chen | 4/4 |
| Mr. ZHANG Junsheng | 4/4 |
| Mr. ZHANG Liping | 4/4 |
| Ms. ZHANG Luyun | 4/4 |
| Ms. ZHANG Yang | 4/4 |

In the meetings held during the Period, the Audit Committee conducted, amongst others, review of financial statements for the quarterly, interim and annual results, the effectiveness of the system of internal control and the reporting thereof to the Board, as well as recommendation on the re-appointment of external auditors.

During the Period, the Company has complied with Rule 3.21 of the Listing Rules regarding the composition of the audit committee.

During the Period, the Directors have all confirmed their responsibility for preparing the accounts, and that there were no events or conditions which would have a material impact on the Company's ability to continue to operate as a going concern basis.

## DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at December 31, 2009, the interests of the Directors, Supervisors and Chief Executives 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, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code are set out below:

**Interest in the shares of Zhejiang Expressway Investment Development Co., Ltd.***

| Name | Position | Contribution of capital (Rmb) | Nature of interest | Percentage of the registered capital of associated corporation |
|---|---|---|---|---|
| Mr. JIANG Wenyao | Director | 1,980,000 | Same as above | 1.65% |
| Mr. ZHANG Jingzhong | Director | 1,650,000 | Same as above | 1.38% |
| Mr. FANG Zhexing | Supervisor | 1,050,000 | Same as above | 0.88% |

* *a 51% owned subsidiary of the Company*

Save as disclosed above, as at December 31, 2009, none of the Directors, Supervisors and Chief Executives had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register 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.

## INTERESTS AND SHORT POSITIONS OF OTHER PERSONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at December 31, 2009, the interests and short positions of other persons in the shares and underlying shares of the Company according to the register required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange are set out below:

| Substantial shareholders | Capacity | Total interests in number of ordinary shares of the Company | Percentage of the issued share capital of the Company (domestic shares) |
|---|---|---|---|
| Communications Group | Beneficial owner | 2,432,500,000 | 83.61% |
| Huajian | Beneficial owner | 476,760,000 | 16.39% |

| Substantial shareholders | Capacity | Total interests in number of ordinary shares of the Company | Percentage of the issued share capital of the Company (H Shares) |
|---|---|---|---|
| JP Morgan Chase & Co. | Beneficial owner, investment manager and custodian corporation/approved lending agent | 184,070,297(L)<br>144,501,750(P) | 12.84%<br>10.08% |
| BlackRock, Inc. | Interest of controlled corporations | 117,315,361(L) | 8.18% |
| Ballie Gifford & Co. | Investment manager | 108,170,275(L) | 7.54% |
| Invesco | Investment manager | 104,564,000(L) | 7.29% |

*The letter "L" denotes a long position. The letter "P" denotes interest in a lending pool.*

Save as disclosed above, as at December 31, 2009, no other persons had any interests or short positions in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

## SHAREHOLDERS' RIGHTS

Pursuant to the Articles of Association of the Company, two or more shareholders who in aggregate hold 10% or more of the voting rights of all the shares of the Company having the right to vote may write to the Board to request the convening of an extraordinary general meeting and specifying the agenda of the meeting. Upon receipt of the request in writing, the Board shall convene the extraordinary general meeting as soon as possible. Shareholders who hold in aggregate 5% or more of the voting rights of all the shares of the Company having the right to vote are entitled to propose additional motions in annual general meeting, provided that such motions are served on the Company within 30 days after the issue of the notice of annual general meeting.

Written requests, proposals and enquiries may be sent to the Company at the following address:

Zhejiang Expressway Co., Ltd.
12/F, Block A, Dragon Century Plaza
1 Hangda Road
Hangzhou, Zhejiang 310007
The People's Republic of China
Attention: Company Secretary

## INVESTOR RELATIONS

There were no changes made to the Articles of Association of the Company during the Period.

During the Period, the last shareholders' meeting of the Company took place at 3:00 p.m. on Tuesday, September 29, 2009 at 12/F, Block A, Dragon Century Plaza, 1 Hangda Road, Hangzhou, Zhejiang Province, the People's Republic of China. Shareholders voted by way of poll, and approved the interim dividend of Rmb6 cents per share in respect of the six months ended June 30, 2009, with 3,600,634,182 shares voted in the affirmative (representing 100% of the total shares held by shareholders present at the meeting) and no share voted in the negative.

The next annual general meeting of the Company is expected to be held on May 10, 2010 to consider the resolutions in respect of, among others, the reports of the directors and of the supervisory committee for 2009, the audited financial statements for 2009, a final dividend for 2009, the final report for 2009 and the financial budget for 2010, as well as the re-appointment of external auditors.

The Company's shares comprised of domestic shares and H shares. The domestic shares were held by Zhejiang Communications Group Co., Ltd as to 2,432,500,000 shares and by Huajian Transportation Economic Development Center as to 476,760,000 shares, representing approximately 56% and 11% of the total issued capital of the Company, respectively. The remaining 1,433,854,500 shares are H shares, representing approximately 33% of the total issued capital of the Company. As at the date of this report, and to the best of the Directors' knowledge, 100% of the H shares of the Company are held by the public.

## INTERNAL CONTROLS

The Company has set up an internal monitoring system that aims to protect assets, preserve accounting and financial information, and ensure the accuracy of financial statements. The system is capable of taking necessary steps to react to possible changes in our businesses as well as external operating environments. Throughout the operating process, the Company's various rules are being continuously enhanced, fulfilled and are deemed effective.

The Company's Audit Committee is charged with the duties of reviewing internal controls, directing monitoring activities. Aside from reviewing the annual reporting by external auditors, the committee also reviews the effectiveness of internal control system and risk management mechanism through reviewing the internal special audit report on the Company's various core businesses prepared by internal audit department on a quarterly basis. In particular, the Audit Committee raised the need for assessing key risk areas regarding the Company's securities business operation, and directed the internal audit department to carry out the assessment as well as the monitoring of continued internal control enhancement by relevant units.

During the Period, the directors of the Company had carried out a review on the effectiveness of the Company's internal control system, covering all material aspects of internal control, including financial control, operational control, compliance control and risk management functions. There were no major breaches in the internal control system that may have had an impact to shareholders' interests, and the internal control system was deemed to be effective and sufficient.

## MANAGEMENT FUNCTIONS

The management functions of the Board and the management are expressly stipulated in the Articles of Association of the Company.

Pursuant to the Articles of Association of the Company, the management of the Company is assigned the functions to be in charge of the production and business operation of the Company and to organize the implementation of the resolutions of the board of directors, to organize the implementation of the annual business plan and investment program of the Company, to prepare plans for the establishment of the internal management structure of the Company, to prepare the basic management systems of the Company, and to formulate basic rules and regulations of the Company, etc.

# Directors, Supervisors and Senior Management Profiles

## DIRECTORS

### EXECUTIVE DIRECTORS

**Mr. CHEN Jisong**, born in 1952, is a senior engineer with professorial certification. Mr. Chen has been appointed as the chairman of the Company since March 1, 2009. In 1978, Mr. Chen graduated from Nanjing Institute of Technology majoring in civil engineering with an emphasis on road construction. From 1978 to 1982, Mr. Chen served as Deputy Chief then Chief of Division No. 1 under the Municipal Construction Department in Hangzhou, Zhejiang Province. From 1982 to 1990, he was Deputy Manager then Manager of the Municipal Construction Company in Hangzhou, Zhejiang Province. From 1990 to 1997, he was Deputy Director then Director of Urban and Suburban Construction Commission of Hangzhou, Zhejiang Province. From 1990 to 1993, he served as Deputy Director of Economic Development Zone in Hangzhou, Zhejiang Province. From 1997 to 2000, Mr. Chen was Deputy Mayor of Hangzhou, Zhejiang Province. From 2000 to 2005, he became Director of the Bureau of Construction of Zhejiang Provincial Government. Mr. Chen has been Chairman of Communications Group (the controlling shareholder of the Company) since 2005.

**Mr. ZHAN Xiaozhang**, born in 1964, is a senior economist with a bachelor's degree in law. Mr. Zhan has been appointed as an Executive Director and the General Manager of the Company since March 1, 2009. In 2005, Mr. Zhan obtained a master's degree in public administration from the Business Institute of Zhejiang University. From 1985 to 1991, Mr. Zhan worked as an officer at Transport Administrative Division under Waterway Transport Authority of Zhejiang Provincial Bureau of Construction. From 1991 to 1998, he served as Deputy Secretary then Secretary of the Communist Youth League Commission at Zhejiang Provincial Bureau of Communications. From 1998 to 2002, he was Deputy Director of Waterway Transport Authority under Zhejiang Provincial Bureau of Communications. From 2002 to 2003, he was Deputy Director of Human Resources Department at Zhejiang Provincial Bureau of Communications. From 2003 to 2006, Mr. Zhan was Chairman of Zhejiang Wenzhou Yongtaiwen Expressway Co., Ltd. From 2006 to 2008, he became Chairman of Zhejiang Jinji Property Co., Ltd. Mr. Zhan has been Assistant to General Manager and Manager of Research and Development Department at Zhejiang Communications Group Co., Ltd. (the controlling shareholder of the Company) from 2006 to 2009.

**Mr. JIANG Wenyao**, born in 1966, is Deputy General Manager of the Company. Mr. Jiang graduated from Zhejiang University, majoring in industrial automation and manufacturing mechanics, and obtained a master's degree in engineering. From March 1991 to February 1997, he worked in the Engineering Division, the Planning and Finance Division and the Equipment Division of the Zhejiang Provincial Expressway Executive Commission. He joined the Company since March 1997, and has served as Deputy Manager of the General Department, Manager of the Equipment Department, Manager of the Operation Department, Assistant to General Manager and Company Secretary. He has been serving as Deputy General Manager since March 2003 and Executive Director and Deputy General Manager since March 2006. Mr. Jiang also serves as Director and General Manager at Development Co., and Director at Yuhang Co., both subsidiaries of the Company.

**Mr. ZHANG Jingzhong**, born in 1963, is a senior lawyer, Executive Director and Company Secretary of the Company. Mr. Zhang graduated from Zhejiang University (previously known as Hangzhou University) in July 1984 with a bachelor's degree in law. In 1984, he joined the Zhejiang Provincial Political Science and Law Policy Research Unit. From 1988 to 1994, he was Associate Director of Hangzhou Municipal Foreign Economic Law Firm. In 1992, he obtained the qualifications required by the regulatory authorities in China to practice securities law. In January 1994, Mr. Zhang became Senior Partner at T&C Law Firm in Hangzhou. Mr. Zhang has been Executive Director and Company Secretary of the Company since March 1997, and was appointed Deputy General Manager in March 2002. He was re-appointed as Company Secretary in March 2003 and as Deputy

General Manager in March 2006. Mr. Zhang also serves as Director at Shangsan Co., Development Co., Petroleum Co., and Vice Chairman at Zheshang Securities.

## NON-EXECUTIVE DIRECTORS

**Ms. ZHANG Luyun**, born in 1961, is a senior economist and Director and Deputy General Manager of Communications Group (the controlling shareholder of the Company) Ms. Zhang graduated from the Department of Chinese Language at Zhejiang University, majoring in Chinese Language, and obtained an EMBA degree from China Europe International Business School in 2008. From 1983 to 1997, she served as Secretary, Deputy Chief and Chief of the Office of Hangzhou City Communist Party Committee. In 1997, she was Deputy President of Hangzhou Broadcasting and TV College. She joined Communications Group in December 2001 and has been Director and Deputy General Manager since then. Ms. Zhang has been Non-executive Director of the Company since March 2003.

**Ms. ZHANG Yang**, born in 1964, is Deputy General Manager of Huajian Transportation Economic Development Center. In 1987, she graduated from Lanzhou University with a bachelor's degree in economics. In 2001, she completed the postgraduate studies in economics management at the Central Party School. From 1987 to 1994, she worked for the Ministry of Aviation. Ms. Zhang is currently Non-executive Director of Shenzhen Expressway Company Limited, Sichuan Expressway Company Limited, Jiangsu Expressway Company Limited and Xiamen Port Development Company Limited. Ms. Zhang has been Non-executive Director of the Company since March 2003.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. TUNG Chee Chen**, born in 1942, is Chairman (Chief Executive Officer) of Orient Overseas (International) Limited. He is an Independent Non-executive Director, a member of the Nomination and Remuneration Committee and Chairman of the Audit Committee of the Company. Mr. Tung was educated at the University of Liverpool, England, where he received his bachelor's degree in science. He later obtained a master's degree in mechanical engineering at the Massachusetts Institute of Technology in the United States. Mr. Tung has been Independent Non-executive Director of the Company since March 1997. In addition, Mr. Tung also holds directorships in the following listed public companies: Independent Non-executive Director of BOC Hong Kong (Holdings) Limited, Cathay Pacific Airways Limited, PetroChina Company Limited, Sing Tao News Corporate Limited, Wing Hang Bank Limited and U-Ming Marine Transport Corp.

**Mr. ZHANG Junsheng**, born in 1936, is a professor, Independent Non-executive Director and a member of the Audit Committee and the Nomination and Remuneration Committee of the Company. Mr. Zhang graduated from Zhejiang University in 1958, and was Lecturer, Associate Professor, and Advising Professor at Zhejiang University. He was also Professor concurrently at, amongst other universities, Zhongshan University. In 1980, he became Deputy General Secretary of Zhejiang University. In 1983, Mr. Zhang served as Deputy General Secretary in the Hangzhou City Communist Party Committee. In 1985, he began to work for the Xinhua News Agency, Hong Kong Branch, and had become its Deputy Director since July, 1987 and was Consultant to the Sichuan Provincial Government and Senior Consultant to the Shenzhen Municipal Government. Since September 1998, Mr. Zhang has taken up the position of General Secretary of Zhejiang University. From 2003 to 2008, Mr. Zhang served as Director of the Zhejiang Province Economic Development Consultation Committee and he is currently Special Advisor to the Zhejiang Provincial Government, Chairman of Zhejiang University Development Committee, Honorary Doctor of Science of City University of Hong Kong, Honorary Academician of Asian Knowledge Management Association and Honorary Professor of Canadian Chartered Institute of Business Administration. Mr. Zhang has been Independent Non-executive Director of the Company since March 2000.

**Mr. ZHANG Liping**, born in 1958, is Chief Executive Officer of Credit Suisse in China. He is Independent Non-executive Director, a member of the Audit Committee and Chairman of the Nomination and Remuneration Committee of the Company. Mr. Zhang graduated from the University of International Business & Economics of Beijing and received a master's degree in international affairs and international laws from St. John's University in New York, the United States. He also attended New York University's MBA program. Mr. Zhang held a number of senior positions at other organizations, including Chief Executive Officer of Imagi International Holdings Limited, Managing Director of Pacific Concord Holdings Limited, Managing Director and Geographic Head - Greater China Region of Dresdner Banking Group, and Director of the Investment Banking Division and China Chief Representative of Merrill Lynch Co. & Inc. Mr. Zhang has been Independent Non-executive Director of the Company since March 2003.

## SUPERVISORS

### SUPERVISOR REPRESENTING SHAREHOLDERS

**Mr. MA Kehua**, born in 1952, is a senior economist and Chairman of the Supervisory Committee. Mr. Ma graduated from the Mechanics Department of Shanghai Railway Institute in 1977, after which he worked as an Engineer at Shanghai Railway Bureau No.1 Construction Company and the Plumbing and Electricity Section of Shanghai Railway Bureau, Hangzhou Branch. Mr. Ma was in charge of the Planning and Finance Division at Zhejiang Local Railway Company, and in 1993 became Deputy Division Chief and Division Chief of Zhejiang Jinwen Railway Executive Commission responsible for materials supply. Mr. Ma took up the post of Deputy General Manager of Zhejiang Provincial High Class Highway Investment Company Limited in June 1999, and is currently Deputy General Manager of Communications Group (the controlling shareholder of the Company).

### SUPERVISOR REPRESENTING EMPLOYEES

**Mr. FANG Zhexing**, born in 1965, is a Senior Engineer, the Manager of the Human Resources Department of the Company. He is also the Chairman of Hangzhou Shida Expressway Co., Ltd., a jointly controlled entity of the Company. Mr. Fang graduated from Zhejiang University where he received a master's degree in engineering. From 1986 to 1988 he was the Assistant Engineer in the Project Management Office of the Electric Power and Water Conservancy Bureau in Taizhou. From 1991 until 1997, he was the Engineer in the Project Management Office of Zhejiang Provincial Expressway Executive Commission, where he participated in the project management of Shanghai-Hangzhou-Ningbo Expressway. Since March 1997, he has served as the Deputy Manager and the Manager of the Planning and Development Department, the Manager of the Project Development Department, the Director of Quality Management Office and the Director of Internal Audit Department of the Company.

### INDEPENDENT SUPERVISORS

**Mr. ZHENG Qihua**, born in 1963, is a senior accountant and independent non-executive member of the Supervisory Committee. Mr. Zheng was among the first batch of Chinese registered accountants who obtained qualifications required for practicing accountancy involving securities in 1992. He has working and training experience in Hong Kong and Singapore, and he worked with the Listing Division of the China Securities Regulatory Commission during 1997 and 1998. In 2004, he was a member of the Sixth Session of the Public Offering Review Committee of the China Securities and Regulatory Commission. He is currently Deputy General Manager of Zhejiang Pan-China Certified Public Accountants and Guest Professor at Zhejiang Gongshang University and Zhejiang Finance & Economics Institute.

**Mr. JIANG Shaozhong**, born in 1946, is a professor. Mr. Jiang graduated from the Management Department of Zhejiang University with a master's degree. In 1982, he worked in the Management Department of Zhejiang University as Lecturer, Assistant Professor, Professor, Dean of Research Office and Deputy Dean of the Department. From 1984 to 1985, he was Visiting Scholar at Stanford University in the United States. From 1991 to 1998 he was Deputy General Economist, Chief of the Financial Division, Chief of the Teaching Division and Standing Deputy Dean of the Management School of Zhejiang University. He is currently Deputy General Accountant of Zhejiang University.

**Mr. WU Yongmin**, born in 1963, is an assistant professor. Mr. Wu graduated from China University of Political Science and Law with a master's degree in law in 1990. He was Deputy Dean of the Department of Law at Hangzhou University, Deputy Dean and Standing Deputy Dean of the Department of Law at Zhejiang University's Law School, and Director of Zhejiang Zheda Law Firm. Mr. Wu studied at Christian-Albrechts-Universit ät zu Kiel in 1996 as Visiting Scholar. He is currently Acting Dean of the Department of Law at the Law School of Zhejiang University, Supervisor for master's degree candidates in Business Law, member of China Business Law Research Council, Deputy Director of Zhejiang Tax Law Research Council, Arbitrator of Hangzhou Arbitration Committee, and Lawyer at Zhejiang Zeda Law Firm.

## OTHER SENIOR MANAGEMENT MEMBERS

**Mr. WU Junyi**, born in 1969, a holder of master degree in accounting, and is the Chief Financial Officer of the Company. Mr. Wu graduated from Xi'an Communications University in 1996. From 1996 to 1997, he was with the China Investment Bank, Hangzhou Branch. He joined the Company in May 1997, and has served as Manager of Securities Investment Department and Manager of Planning and Finance Department.

# Report of the Directors

The Directors of the Company hereby present their report and the audited financial statements of the Company and the Group for the year ended December 31, 2009.

## PRINCIPAL ACTIVITIES

The principal activities of the Group comprise the operation, maintenance and management of high grade roads, as well as development and operation of certain ancillary services, such as advertising, automobile servicing and fuel facilities, as well as provision of security broking service and proprietary securities trading.

## SEGMENT INFORMATION

During the year, the entire revenue and contribution to profit from operating activities of the Group were derived from the People's Republic of China ("PRC"). Accordingly, a further analysis of the revenue and contribution to profit from operating activities by geographical area is not presented. However, an analysis of the Group's revenue and contribution to profit from operating activities by principal activity for the year ended December 31, 2009 is set out in note 7 to the financial statements.

## RESULTS AND DIVIDENDS

The Group's profits for the year ended December 31, 2009 and the state of affairs as at that date are set out in the financial statements on pages 47 to 113.

An interim dividend of Rmb0.06 per share (approximately HK$0.07) was paid on October 29, 2009. The Directors recommend the payment of a final dividend of Rmb0.25 (approximately HK$0.28) in respect of the year, to shareholders whose names appeared on the register of members of the Company on April 15, 2010. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within the capital and reserves section in the consolidated statement of financial position. The dividend payout ratio reached 75.0% during the Period. Further details of the dividends are set out in note 16 to the financial statements.

# FIVE YEAR SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated results, and of the assets, liabilities and minority interests of the Group prepared on the basis set out in the notes below.

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| Results | **Rmb'000** | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 |
| | | | (Restated) | (Restated) | (Restated) |
| REVENUE | **6,036,294** | 6,323,470 | 7,030,380 | 4,763,780 | 3,456,385 |
| Operating costs | **(3,145,294)** | (3,133,244) | (3,089,133) | (2,076,670) | (1,195,428) |
| Gross profit | **2,891,000** | 3,190,226 | 3,941,247 | 2,687,110 | 2,260,957 |
| Security investment income (loss) | **35,967** | (316,213) | 475,828 | 80,421 | 33,982 |
| Other income | **426,280** | 211,420 | 134,607 | 123,531 | 151,965 |
| Administrative expenses | **(69,845)** | (70,003) | (81,089) | (71,022) | (62,766) |
| Other expenses | **(133,640)** | (38,947) | (93,259) | (32,901) | (41,635) |
| Finance costs | **(62,724)** | (76,809) | (60,552) | (71,991) | (101,343) |
| Share of (loss) profit of associates | **(24,164)** | 10,659 | (4,655) | 4,435 | 7,217 |
| Share of profit of a jointly controlled entity | **21,254** | 23,746 | 20,406 | 23,344 | 16,285 |
| PROFIT BEFORE TAX | **3,084,128** | 2,934,079 | 4,332,533 | 2,742,927 | 2,264,662 |
| INCOME TAX EXPENSE | **(840,055)** | (668,928) | (1,191,638) | (884,036) | (692,366) |
| PROFIT FOR THE YEAR | **2,244,073** | 2,265,151 | 3,140,895 | 1,858,891 | 1,572,296 |
| Attributable to: | | | | | |
| Equity holders of the Company | **1,795,488** | 1,892,787 | 2,415,965 | 1,652,871 | 1,431,192 |
| Minority interests | **448,585** | 372,364 | 724,930 | 206,020 | 141,104 |
| EARNINGS PER SHARE-Basic | **41.34 cents** | 43.58 cents | 55.63 cents | 38.06 cents | 32.95 cents |

| | As at December 31, | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| Results | **Rmb'000** | Rmb'000 | Rmb'000 | Rmb'000 | Rmb'000 |
| | | | (Restated) | (Restated) | (Restated) |
| Total assets | **32,402,781** | 25,287,521 | 27,512,804 | 19,570,419 | 16,311,656 |
| Total liabilities | **(15,337,927)** | (8,990,253) | (11,748,490) | (6,217,967) | (3,947,788) |
| Net assets | **17,064,854** | 16,297,268 | 15,764,314 | 13,352,452 | 12,363,868 |

Notes:

1. The consolidated results of the Group for the four years ended December 31, 2008 have been extracted from the Company's 2008 annual report dated March 31, 2009, while those of the year ended December 31, 2009 were prepared based on the consolidated statement of comprehensive income as set out on page 47 of the financial statements.

2. The 2009 earnings per share is based on the profits attributable to owners of the Company for the year ended December 31, 2009 of Rmb1,795,488,000 (2008: Rmb1,892,787,000) and the 4,343,114,500 ordinary shares (2008: 4,343,114,500 ordinary shares) in issue during the year.

3. The differences in Financial Statements prepared under PRC GAAP and HKFRSs are set out below:

| | Profits for the year | | Net assets as at December 31, | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **Rmb'000** | Rmb'000 | **Rmb'000** | Rmb'000 |
| As reported in the statutory financial statements of the Group prepared in accordance with PRC GAAP | **2,257,855** | 2,276,136 | **17,287,330** | 16,508,461 |
| HK GAAP adjustments: | | | | |
| (a) Goodwill | **—** | — | **(199,769)** | (199,769) |
| (b) Amortization provided, net of deferred tax | **(13,709)** | (4,610) | **(155,348)** | (144,139) |
| (c) Assessment on impact of appreciation, net of deferred tax | **(3,884)** | (2,851) | **74,104** | 77,988 |
| (d) Others | **3,719** | (81) | **7,228** | 3,510 |
| (e) Minority interests | **92** | (3,443) | **51,309** | 51,217 |
| As restated in the financial statements | **2,244,073** | 2,265,151 | **17,064,854** | 16,297,268 |

## MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the five largest customers and suppliers of the Group accounted for less than 30% of the total turnover and purchases, respectively.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

## CONNECTED TRANSACTIONS

During the year, details of the connected transaction that the Company has entered into with its subsidiary and fellow subsidiary are set out in note 44 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year are set out in note 18 to the financial statements.

## CAPITAL COMMITMENTS

Details of the capital commitments of the Group as at December 31, 2009 are set out in note 42 to the financial statements.

## RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 50 to the financial statements.

## DISTRIBUTABLE RESERVES

As at December 31, 2009, before the proposed final dividend, the Company's reserves available for distribution by way of cash or in kind, as determined based on the lower of the amount determined under PRC accounting standards and the amount determined under HK GAAP, amounted to Rmb1,798,310,000. In addition, in accordance with the Company Law of the PRC, the amount of approximately Rmb3,645,726,000 standing to the credit of the Company's share premium account as prepared in accordance with the PRC accounting standards was available for distribution by way of capitalisation issues.

## TRUST DEPOSITS

As at December 31, 2009, other than the deposits of Rmb14,857,050.23 placed in non-bank financial institutions in the PRC, the Group did not have any trust deposits with any non-bank financial institution in the PRC. Nearly all of the Group's deposits have been placed with commercial banks in the PRC and the Group has not encountered any difficulty in the withdrawal of funds.

## PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

## DIRECTORS

The Directors of the Company during the year are:

### EXECUTIVE DIRECTORS

Mr. Chen Jisong *(Chairman)*
Mr. Geng Xiaoping *(Chairman, retired)*
Mr. Zhan Xiaozhang *(General Manager)*
Mr. Fang Yunti *(General Manager, retired)*
Mr. Jiang Wenyao
Mr. Zhang Jingzhong

### NON-EXECUTIVE DIRECTORS

Ms. Zhang Luyun
Ms. Zhang Yang

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tung Chee Chen
Mr. Zhang Junsheng
Mr. Zhang Liping

## CHANGE IN DIRECTORS AND SENIOR MANAGEMENT

At the extraordinary general meeting held by the Company on February 27, 2009, Mr. CHEN Jisong and Mr. ZHAN Xiaozhang were newly elected as members of the fifth session of the Board of Directors, Mr. JIANG Wenyao, Mr. ZHANG Jingzhong, Ms. ZHANG Luyun, Ms. ZHANG Yang, Mr. TUNG Chee Chen, Mr. ZHANG Junsheng, and Mr. ZHANG Liping were re-elected as members of the fifth session of the Board of Directors. Mr. GENG Xiaoping and Mr. FANG Yunti retired from their positions of the fourth session of the Board of Directors upon expiry of their term of office on February 28, 2009 as they have approached their retirement age.

At the same extraordinary general meeting, Mr. MA Kehua, Mr. ZHENG Qihua, Mr. JIANG Shaozhong and Mr. WU Yongmin were re-elected as members of the fifth session of the Supervisory Committee. Mr. FANG Zhexing was re-elected as member of the fifth session of the Supervisory Committee representing employees on the employees' representative meeting held on February 19, 2009.

The term of the fifth session of the Board of Directors and the Supervisory Committee is three years, commencing on March 1, 2009 and expiring on February 29, 2012.

Following the election, the fifth session of the Board of Directors held its first meeting on February 27, 2009, and elected Mr. CHEN Jisong as Chairman of the Company, appointed Mr. CHEN Jisong as Chairman of the Strategic Committee, Mr. TUNG Chee Chen as Chairman of the Audit Committee, and Ms. ZHANG Luyun as Chairwoman of the Nomination and Remuneration Committee.

In the same meeting of the Board of Directors, Mr. ZHAN Xiaozhang was appointed as General Manager of the Company; Mr. JIANG Wenyao, Mr. ZHANG Jingzhong, Ms. HUANG Qiuxia and Mr. PANG Jiaxiang were appointed as Deputy General Managers of the Company; Mr. ZHANG Jingzhong was also appointed as Company Secretary of the Company; and Mr. WU Junyi was appointed as Chief Financial Officer of the Company.

The appointments above are for a term of three years, commencing on March 1, 2009 and expiring on February 29, 2012.

In a meeting of the Board of Directors of the Company held on March 14, 2010, according to the suggestion of General Manager, that Ms. HUANG Qiuxia and Mr. PANG Jiaxiang will no longer serve as Deputy General Managers of the Company due to age limit to office.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out on page 33 in the Company's annual report.

## DIRECTORS' SERVICE CONTRACTS

Each of the Directors of the Company has entered into a service agreement with the Company, with effect from March 1, 2009, for a term of three years.

Save as disclosed above, none of the Directors and Supervisors has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

As at December 31, 2009 or during the year, none of the Directors or Supervisors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

## DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S RIGHTS TO SUBSCRIBE FOR SHARES OR DEBENTURES

At no time during the year were there rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director, Supervisor and chief executive or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable any such persons to acquire such rights in any other body corporate.

## SHARE CAPITAL

There were no movements in the Company's issued share capital during the year.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights in the Company's Articles of Association or the laws of the PRC which would require the Company to offer new shares on a pro rata basis to existing shareholders.

## TAXATION AND TAX RELIEF

In accordance with the *Notice on Taxation of Dividends and Stock (Options) Transfer Income Obtained by Foreign-invested Companies, Foreign Companies and Foreign Citizens* (Guoshuifa [1993] No.045) published by the State Administration of Taxation, foreign individuals holding H Shares are exempted from paying personal income tax for dividends obtained from companies incorporated in PRC that issue H Shares.

As stipulated by the *Notice on Issues Relating to Enterprise Income Tax Withholding over Dividends Distributable to Their H-Share Holders Who are Overseas Non-resident Enterprises by Chinese Resident Enterprises* published by the State Administration of Taxation PRC (Guoshuihan [2008] No.897), when Chinese resident enterprises distribute annual dividends for the year 2008 and years thereafter to their H-Share holders who are overseas non-resident enterprises, the enterprise income tax shall be withheld at a uniform rate of 10%.

Under current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by the Company.

Shareholders are taxed or enjoy tax relief in accordance with the aforementioned regulations.

## AUDITORS

Deloitte Touche Tohmatsu Certified Public Accountants Hong Kong, who had served as the Company's Hong Kong auditors since 2005, will retire and a resolution for their reappointment as Hong Kong auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
**CHEN Jisong**
*Chairman*

Hangzhou, Zhejiang Province, the PRC
March 14, 2010

# Report of the Supervisory Committee

During the financial year 2009 (the "Period"), the Supervisory Committee duly performed its supervisory duties, and safeguarded the legitimate interests of the shareholders and the Company in accordance with relevant rules and regulations under the Company Law of the PRC, the Company's Articles of Association and the Rules of the Supervisory Committee.

Main tasks undertaken by the Supervisory Committee during the Period were to assess and supervise lawfulness, legality and appropriateness of the activities of the Directors, General Manager and other senior management of the Company in their business decision-making and daily management processes, through a combination of activities including holding meetings of the Supervisory Committee and attending meetings of shareholders and meetings of the Board. The Supervisory Committee has carefully examined the operating results and the financial standing of the Company, and discussed and reviewed the financial statements to be submitted by the Board to the general meeting.

During the Period, the Supervisory Committee held one meeting of its own, and attended six meetings of the Board and two meetings of shareholders.

The Supervisory Committee concluded that during the Period, the Directors, General Manager and other senior management of the Company worked rigorously to control costs and expenses while making extensive efforts to catch and block toll charge-evading practices, all amid a challenging backdrop of global financial crisis, continued diversion in traffic from expressways, and partial closure of Shanghai section of the Shanghai-Hangzhou Expressway due to construction works; new products and modes of operation were introduced in service area business operations in an effort to boost profitability in response to declines in traffic flow, while securities and futures business continued its robust growth and development, further expanding its market share even as competition growing more fierce and commission rates falling significantly.

The Supervisory Committee has reviewed the financial statements of the Company for 2009 prepared by the Board for submission to the general meeting of shareholders, and concluded that the financial statements accurately reflected the financial position of the Company in 2009, and complied with the relevant laws, regulations and the Company's Articles of Association. Even though the results declined consecutively for a second year, the Company maintained a relatively high dividend payout ratio, providing satisfactory returns in cash to shareholders.

During the Period, the members of the Board, General Manager and other senior management of the Company have complied with their fiduciary duties and worked in good faith and diligence while carrying out their responsibilities. There was no incident of abuse of power or infringement of the interests of shareholders or employees.

The Supervisory Committee is satisfied with the various results obtained by the Board and the management of the Company.

By the order of the Supervisory Committee
**MA Kehua**
*Chairman of the Supervisory Committee*

Hangzhou, Zhejiang Province, the PRC
March 11, 2010

# Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF ZHEJIANG EXPRESSWAY CO., LTD.
(Established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Zhejiang Expressway Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 47 to 113, which comprise the consolidated statement of financial position as at December 31, 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at December 31, 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
March 14, 2010

# Consolidated Statement of Comprehensive Income

For the year ended December 31, 2009

| | NOTES | 2009 Rmb'000 | 2008 Rmb'000 |
|---|---|---|---|
| Revenue | 7 | **6,036,294** | 6,323,470 |
| Operating costs | | **(3,145,294)** | (3,133,244) |
| Gross profit | | **2,891,000** | 3,190,226 |
| Securities investment gains (losses) | 8 | **35,967** | (316,213) |
| Other income | 9 | **426,280** | 211,420 |
| Administrative expenses | | **(69,845)** | (70,003) |
| Other expenses | | **(133,640)** | (38,947) |
| Share of (loss) profit of associates | | **(24,164)** | 10,659 |
| Share of profit of a jointly controlled entity | | **21,254** | 23,746 |
| Finance costs | 10 | **(62,724)** | (76,809) |
| Profit before tax | 11 | **3,084,128** | 2,934,079 |
| Income tax expense | 12 | **(840,055)** | (668,928) |
| **Profit for the year** | | **2,244,073** | 2,265,151 |
| **Other comprehensive income** | 13 | | |
| Available-for-sale financial assets: | | | |
| – Fair values gain (loss) during the year | | **34,234** | (345,081) |
| – Reclassification adjustments for cumulative (gain) loss included in profit or loss upon disposal | | **(13,632)** | 89,680 |
| – Reclassification adjustment upon impairment | | **—** | 24,792 |
| Income tax relating to components of other comprehensive income | | **(5,150)** | 57,652 |
| Other comprehensive income (loss) for the year (net of tax) | | **15,452** | (172,957) |
| **Total comprehensive income for the year** | | **2,259,525** | 2,092,194 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **1,795,488** | 1,892,787 |
| Minority interests | | **448,585** | 372,364 |
| | | **2,244,073** | 2,265,151 |
| Total comprehensive income attributable to: | | | |
| Owners of the Company | | **1,803,504** | 1,803,062 |
| Minority interests | | **456,021** | 289,132 |
| | | **2,259,525** | 2,092,194 |
| EARNINGS PER SHARE - Basic | 17 | **Rmb 41.34 cents** | Rmb 43.58 cents |

# Consolidated Statement of Financial Position

At December 31, 2009

| | NOTES | 2009 Rmb'000 | 2008 Rmb'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 18 | **1,035,628** | 1,031,248 |
| Prepaid lease payments | 19 | **30,342** | 47,654 |
| Expressway operating rights | 20 | **12,755,338** | 12,923,977 |
| Goodwill | 21 | **86,867** | 86,867 |
| Other intangible assets | 22 | **154,819** | 158,065 |
| Interests in associates | 24 | **435,007** | 464,262 |
| Interest in a jointly controlled entity | 25 | **—** | 124,251 |
| Available-for-sale investments | 26 | **1,000** | 1,000 |
| | | **14,499,001** | 14,837,324 |
| CURRENT ASSETS | | | |
| Inventories | | **17,342** | 16,303 |
| Trade receivables | 27 | **50,570** | 75,999 |
| Other receivables | 28 | **451,167** | 177,170 |
| Prepaid lease payments | 19 | **1,421** | 1,265 |
| Available-for-sale investments | 26 | **54,704** | 28,001 |
| Held for trading investments | 29 | **517,895** | 247,587 |
| Structured deposit | 30 | **—** | 204,667 |
| Bank balances held on behalf of customers | 31 | **11,532,284** | 5,643,192 |
| Bank balances and cash | | | |
| – Restricted bank balances | 32 | **942** | 35,000 |
| – Time deposits with original maturity over three months | 32 | **228,452** | 284,068 |
| – Cash and cash equivalents | 32 | **5,049,003** | 3,736,945 |
| | | **17,903,780** | 10,450,197 |
| CURRENT LIABILITIES | | | |
| Accounts payable to customers arising from securities dealing business | 33 | **11,502,930** | 5,607,473 |
| Trade payables | 34 | **647,373** | 415,096 |
| Tax liabilities | | **512,551** | 447,884 |
| Other taxes payable | | **30,492** | 32,760 |
| Other payables and accruals | 35 | **637,665** | 537,762 |
| Dividends payable | | **18** | 33,388 |
| Interest-bearing bank and other loans | 36 | **478,055** | 380,897 |
| Provisions | 37 | **122,477** | 33,864 |
| | | **13,931,561** | 7,489,124 |
| NET CURRENT ASSETS | | **3,972,219** | 2,961,073 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **18,471,220** | 17,798,397 |

| | NOTES | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank and other loans | 36 | **144,329** | 228,867 |
| Long-term bonds | 38 | **1,000,000** | 1,000,000 |
| Deferred tax liabilities | 39 | **262,037** | 272,262 |
| | | **1,406,366** | 1,501,129 |
| | | **17,064,854** | 16,297,268 |
| CAPITAL AND RESERVES | | | |
| Share capital | 40 | **4,343,115** | 4,343,115 |
| Reserves | | **9,840,505** | 9,339,935 |
| Equity attributable to owners of the Company | | **14,183,620** | 13,683,050 |
| Minority interests | | **2,881,234** | 2,614,218 |
| | | **17,064,854** | 16,297,268 |

The consolidated financial statements on pages 47 to 113 were approved and authorised for issue by the Board of Directors on March 14, 2010 and are signed on its behalf by:

**CHEN Jisong**
*DIRECTOR*

**ZHAN Xiaozhang**
*DIRECTOR*

# Consolidated Statement of Changes in Equity

For the year ended December 31, 2009

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital Rmb'000 | Share premium Rmb'000 | Statutory reserves (Note) Rmb'000 | Investment revaluation reserve Rmb'000 | Dividend reserve Rmb'000 | Retained profits Rmb'000 | Total Rmb'000 | Minority interests Rmb'000 | Total Rmb'000 |
| At January 1, 2008 | 4,343,115 | 3,645,726 | 1,792,824 | 89,725 | 1,042,347 | 2,312,616 | 13,226,353 | 2,537,961 | 15,764,314 |
| Profit for the year | — | — | — | — | — | 1,892,787 | 1,892,787 | 372,364 | 2,265,151 |
| Other comprehensive income for the year | — | — | — | (89,725 ) | — | — | (89,725 ) | (83,232 ) | (172,957 ) |
| Total comprehensive income for the year | — | — | — | (89,725 ) | — | 1,892,787 | 1,803,062 | 289,132 | 2,092,194 |
| Dividend paid to minority interests | — | — | — | — | — | — | — | (212,875 ) | (212,875 ) |
| Interim dividend | — | — | — | — | — | (304,018 ) | (304,018 ) | — | (304,018 ) |
| Final dividend | — | — | — | — | (1,042,347 ) | — | (1,042,347 ) | — | (1,042,347 ) |
| Proposed final dividend | — | — | — | — | 1,042,347 | (1,042,347 ) | — | — | — |
| Transfer to reserves | — | — | 323,705 | — | — | (323,705 ) | — | — | — |
| At December 31, 2008 and January 1, 2009 | 4,343,115 | 3,645,726 | 2,116,529 | — | 1,042,347 | 2,535,333 | 13,683,050 | 2,614,218 | 16,297,268 |
| Profit for the year | — | — | — | — | — | 1,795,488 | 1,795,488 | 448,585 | 2,244,073 |
| Other comprehensive income for the year | — | — | — | 8,016 | — | — | 8,016 | 7,436 | 15,452 |
| Total comprehensive income for the year | — | — | — | 8,016 | — | 1,795,488 | 1,803,504 | 456,021 | 2,259,525 |
| Dividend paid to minority interests | — | — | — | — | — | — | — | (189,005 ) | (189,005 ) |
| Interim dividend | — | — | — | — | — | (260,587 ) | (260,587 ) | — | (260,587 ) |
| Final dividend | — | — | — | — | (1,042,347 ) | — | (1,042,347 ) | — | (1,042,347 ) |
| Proposed final dividend | — | — | — | — | 1,085,779 | (1,085,779 ) | — | — | — |
| Transfer to reserves | — | — | 350,482 | — | — | (350,482 ) | — | — | — |
| **At December 31, 2009** | **4,343,115** | **3,645,726** | **2,467,011** | **8,016** | **1,085,779** | **2,633,973** | **14,183,620** | **2,881,234** | **17,064,854** |

Note: Statutory reserves comprise:

(a) *Statutory surplus reserve*

In accordance with the Company Law of the People's Republic of China (the "PRC") and the respective articles of association of the Entities (as defined below), the Company and its subsidiaries (collectively the "Entities") are required to allocate 10% of the profit after tax, as determined in accordance with the PRC accounting standards and regulations applicable to the Entities, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the respective Entities. Subject to certain restrictions set out in the Company Law of the PRC and the respective articles of association of the Entities, part of the statutory surplus reserve may be converted to increase the respective Entities' capital.

(b) *General risk reserve*

In accordance with the Finance Regulation for Financial Enterprises, securities companies are required to allocate 10% of the profit after tax, as determined in accordance with the PRC accounting standards and regulations, to the general risk reserve. This general risk reserve may be used to cover potential losses on risk exposures.

(c) *Transaction risk reserve*

In accordance with the Securities Law of the PRC, securities companies are required to allocate not less than 10% of the profit after tax, as determined in accordance with the PRC accounting standards and regulations, to the transaction risk reserve. This transaction risk reserve may be used to cover potential losses on securities transactions.

# Consolidated Statement of Cash Flows

For the year ended December 31, 2009

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Profit before tax | **3,084,128** | 2,934,079 |
| Adjustments for: | | |
| Finance costs | **62,724** | 76,809 |
| Interest income | **(30,727)** | (59,782) |
| Share of loss (profit) of associates | **24,164** | (10,659) |
| Share of profit of a jointly controlled entity | **(21,254)** | (23,746) |
| Depreciation of property, plant and equipment | **122,774** | 112,140 |
| Amortisation of expressway operating rights | **676,220** | 659,027 |
| Amortisation of prepaid lease payments | **1,265** | 1,503 |
| Amortisation of other intangible assets | **13,438** | 9,424 |
| Impairments loss on available-for-sale investments | **—** | 24,792 |
| Impairments loss on interest in an associate | **9,298** | — |
| (Gain) loss on disposal of available-for-sale investments | **(13,632)** | 89,680 |
| (Gain) loss on fair value changes on held for trading investments | **(22,335)** | 201,741 |
| Loss on disposal of property, plant and equipment | **33,072** | 6,076 |
| Gain on disposal of an associate | **—** | (8,375) |
| Gain on disposal of a jointly controlled entity | **(274,494)** | — |
| Operating cash flows before movements in working capital | **3,664,641** | 4,012,709 |
| Increase in inventories | **(1,039)** | (1,745) |
| Decrease in trade receivables | **25,429** | 6,678 |
| Increase in other receivables | **(23,129)** | (38,529) |
| (Increase) decrease in held for trading investments | **(247,973)** | 171,892 |
| (Increase) decrease in bank balances held on behalf of customers | **(5,889,092)** | 1,596,197 |
| Increase (decrease) in accounts payable to customers arising from securities dealing business | **5,895,457** | (1,603,788) |
| Increase (decrease) in trade payables | **232,277** | (126,413) |
| Decrease in other taxes payable | **(2,268)** | (5,128) |
| Increase (decrease) in other payables and accruals | **99,903** | (6,095) |
| Increase (decrease) in provisions | **88,613** | (130,160) |
| Cash generated from operations | **3,842,819** | 3,875,618 |
| Income taxes paid | **(785,613)** | (1,277,862) |
| Interest paid | **(62,724)** | (81,110) |
| NET CASH FROM OPERATING ACTIVITIES | **2,994,482** | 2,516,646 |

# Consolidated Statement of Cash Flows

For the year ended December 31, 2009

| | NOTE | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|---|
| INVESTING ACTIVITIES | | | |
| Interest received | | **31,694** | 55,115 |
| Dividends received from an associate | | **42** | 6,500 |
| Proceeds on disposal of property, plant and equipment | | **3,834** | 2,167 |
| Proceeds on disposal of an associate | | **—** | 43,375 |
| Proceeds on disposal of a jointly controlled entity | | **252,000** | — |
| Repayment from a related party | | **—** | 370,000 |
| Repayment from an associate | | **—** | 100,000 |
| Entrusted loan to associates | | **(120,000)** | (100,000) |
| Purchases of property, plant and equipment | | **(164,060)** | (217,118) |
| Prepaid lease payments for land use rights | | **(1,324)** | — |
| Addition in expressway operating rights | | **(507,581)** | (275,459) |
| Purchases of intangible assets | | **(10,192)** | (5,263) |
| Decrease in available-for-sale investments | | **2,381** | 222,676 |
| Decrease (increase) in structured deposit | | **200,000** | (200,000) |
| Decrease (increase) in time deposits | | **55,616** | (57,096) |
| Decrease in restricted bank balances | | **34,058** | — |
| Investments in associates | | **(4,249)** | — |
| NET CASH USED IN INVESTING ACTIVITIES | | **(227,781)** | (55,103) |
| FINANCING ACTIVITIES | | | |
| Dividends paid | | **(1,336,304)** | (1,346,362) |
| Dividends paid to minority interests | | **(130,959)** | (139,821) |
| New bank and other loans raised | | **200,000** | 700,893 |
| Repayment of bank and other loans | | **(187,380)** | (713,119) |
| NET CASH USED IN FINANCING ACTIVITIES | | **(1,454,643)** | (1,498,409) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | **1,312,058** | 963,134 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | **3,736,945** | 2,773,811 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | 32 | **5,049,003** | 3,736,945 |

# Notes to the Consolidated Financial Statements

For the year ended December 31, 2009

## 1. CORPORATE INFORMATION

Zhejiang Expressway Co., Ltd. (the “Company”) was established in the People’s Republic of China (the “PRC”) with limited liability on March 1, 1997. The H shares of the Company (“H Shares”) were subsequently listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on May 15, 1997.

All of the H Shares of the Company were admitted to the Official List of the United Kingdom Listing Authority (the “Official List”). Dealings in the H Shares on the London Stock Exchange commenced on May 5, 2000.

On July 18, 2000, with the approval of the Ministry of Foreign Trade and Economic Co-operation of the PRC, the Company changed its business registration into a Sino-foreign joint stock limited company.

On February 14, 2002, the United States Securities and Exchange Commission, following the approval by the Board of Directors and the China Securities Regulatory Commission, declared the registration statement in respect of the American Depositary Shares (“ADSs”) evidenced by the American Depositary Receipts (“ADRs”) representing the deposited H Shares of the Company effective.

In the opinion of the directors, the immediate and ultimate holding company of the Company is Zhejiang Communications Investment Group Co., Ltd. (the “Communications Group”), a state-owned enterprise established in the PRC.

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The consolidated financial statements are presented in Renminbi (“Rmb”), which is also the functional currency of the Company.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred as the “Group”) is involved in the following principal activities:

(a) the operation, maintenance and management of high grade roads;

(b) the development and provision of certain ancillary services such as advertising, automobile servicing and fuel facilities; and

(c) the provision of securities broking services and proprietary trading.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| Hong Kong Accounting Standard ("HKAS") 1 (Revised 2007) | Presentation of Financial Statements |
| HKAS 23 (Revised 2007) | Borrowing Costs |
| HKAS 24 (Revised) | Related Party Disclosures |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations |
| HKFRS 7 (Amendment) | Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| Hong Kong (IFRIC) – Interpretation ("HK(IFRIC) – Int") 9 & HKAS 39 (Amendments) | Embedded Derivatives |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes |
| HK(IFRIC) – Int 15 | Agreements for the Construction of Real Estate |
| HK(IFRIC) – Int 16 | Hedges of a Net Investment in a Foreign Operation |
| HK(IFRIC) – Int 18 | Transfers of Assets from Customers |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after July 1, 2009 |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39 |

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

### NEW AND REVISED HKFRSS AFFECTING PRESENTATION AND DISCLOSURE ONLY

*HKAS 1 (Revised 2007) Presentation of Financial Statements*

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

*HKFRS 8 Operating Segments*

HKFRS 8 is a disclosure standard that has resulted in a redesignation of the Group's reportable segments and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities (see Note 7).

*HKAS 24 (Revised) Related Party Disclosures*

The Group has early adopted HKAS 24 (Revised) in advance of its effective date, January 1, 2011. It provides a partial exemption from the disclosure requirements for government-related entities and revised the definition of a related party. Transactions and balances with other government-related entities are set out in Note 44.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1] |
| HKFRSs (Amendments) | Improvements to HKFRSs issued in 2009[2] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[1] |
| HKAS 32 (Amendment) | Classification of Rights Issues[4] |
| HKAS 39 (Amendment) | Eligible Hedged Items[1] |
| HKFRS 1 (Amendment) | Additional Exemptions for First-time Adopters[3] |
| HKFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transactions[3] |
| HKFRS 3 (Revised) | Business Combinations[1] |
| HKFRS 9 | Financial Instruments (relating to the classification and measurement of financial assets)[7] |
| HK (IFRIC) - Int 14 (Amendment) | Prepayments of a Minimum Funding Requirement[6] |
| HK (IFRIC) - Int 17 | Distributions of Non-cash Assets to Owners[1] |
| HK (IFRIC) - Int 19 | Extinguishing Financial Liabilities with Equity Instruments[5] |

1 Effective for annual periods beginning on or after July 1, 2009

2 Effective for annual periods beginning on or after July 1, 2009 and January 1, 2010, as appropriate

3 Effective for annual periods beginning on or after January 1, 2010

4 Effective for annual periods beginning on or after February 1, 2010

5 Effective for annual periods beginning on or after July 1, 2010

6 Effective for annual periods beginning on or after January 1, 2011

7 Effective for annual periods beginning on or after January 1, 2013

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after January 1, 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from January 1, 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's available-for-sale financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

### BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### BUSINESS COMBINATIONS

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, and liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### GOODWILL

#### Goodwill arising on acquisitions prior to January 1, 2005

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before January 1, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition. For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash-generating unit to which the goodwill relates may be impaired (see the accounting policy below).

#### Goodwill arising on acquisitions on or after January 1, 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after January 1, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated statement of financial position.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### GOODWILL *(continued)*

#### Goodwill arising on acquisitions on or after January 1, 2005 *(continued)*

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

### INVESTMENTS IN ASSOCIATES

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale (in which case it is accounted for under HKFRS 5 *Non-current Assets, Held for Sale and Discontinued Operation)*. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

When an investment in an associate previously classified as held for sale no longer meets the criteria to be so classified, such investment is accounted for using equity method as from the date of its classification as held for sale. The financial statements for the periods since classification as held for sale is amended accordingly.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale (in which case it is accounted for under HKFRS 5 *Non-current Assets, Held for Sale and Discontinued Operation)*. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. Goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recongised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and revenue taxes.

Toll income from the operation of tolled roads is recognised when the tolls are received or become receivable.

Revenue from sale of goods is recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Commission income from securities broking business is recognised on a trade date basis.

Advisory and handling fee income are recognised when the relevant transactions have been provided or the relevant services have been rendered.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

# 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

## PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment including land and building held for use in supply of goods and services, or for administrative purposes (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

| | **Estimated useful life** | **Annual depreciation rate** |
|---|---|---|
| Leasehold land and buildings | 30-50 years | 1.9%-3.2% |
| Ancillary facilities | 10-30 years | 3.2%-9% |
| Communications and signalling equipment | 5 years | 19.4% |
| Motor vehicles | 5-8 years | 12.1%-19.4% |
| Machinery and equipment | 5-8 years | 12.1%-19.4% |

Construction in progress includes property, plant and equipment in the course of construction. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period in which the item is derecognised.

## PREPAID LEASE PAYMENTS

Payment for obtaining land use rights is accounted for as prepaid lease payments and is charged to the consolidated statement of comprehensive income on a straight-line basis over the lease terms.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### INTANGIBLE ASSETS

**Intangible assets acquired separately**

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

**Intangible assets acquired in a business combination**

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses on tangible and intangible assets below).

### EXPRESSWAY OPERATING RIGHTS UNDER SERVICE CONCESSION ARRANGEMENTS

When the Group has a right to charge for usage of concession infrastructure, it recognises concession intangible assets based on fair value of the consideration paid upon initial recognition. Subsequent costs incurred on expressway widening projects and upgrading services are recognised as additional costs of the expressway operating rights. The concession intangible assets representing expressway operating rights are carried at cost less accumulated amortisation and any accumulated impairment losses.

The concession intangible assets are amortised to write-off their cost over their expected useful lives in the remaining concession period on a straight-line basis.

Costs in relation to the day-to-day servicing, repair and maintenance of the expressway infrastructures are recognised as expenses in the periods in which they are incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### IMPAIRMENT LOSSES ON TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL (SEE THE ACCOUNTING POLICY IN RESPECT OF GOODWILL ABOVE)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

### INVENTORIES

Inventories, representing merchandise held for resale, are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

### LEASING

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

**The Group as lessor**

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

**The Group as lessee**

Operating lease payments are recognised as expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### LEASING *(continued)*

**Leasehold land and buildings**

The land and building elements of a lease of land and buildings are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases and amortised over the lease term on a straight-line basis.

### FOREIGN CURRENCIES

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

### BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### RETIREMENT BENEFIT COSTS

Payments to state-managed retirement benefit schemes and corporate annuity scheme are charged as an expense when employees have rendered service entitling them to the contributions.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

**Financial assets**

The Group's financial assets are classified into loans and receivables, financial assets at fair value through profit or loss ("FVTPL") and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

**Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

# 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

## FINANCIAL INSTRUMENTS *(continued)*

### **Financial assets** *(continued)*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, bank balances and balances held on behalf of customers) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment losses on financial assets below).

*Financial assets at fair value through profit or loss*

Financial asset at FVTPL include financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss in profit or loss includes any dividend or interest earned on the financial assets.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the categories of financial assets set out above.

Available-for-sale financial assets are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

# 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

## FINANCIAL INSTRUMENTS *(continued)*

### Financial assets *(continued)*

#### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### FINANCIAL INSTRUMENTS *(continued)*

**Financial liabilities and equity**

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

**Effective interest method**

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

*Financial liabilities*

Financial liabilities including trade payables, accounts payable to customers arising from securities dealing business, other payables, dividends payable, interest-bearing bank and other loans, and long-term bonds are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

**Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that have been recognised directly in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The followings are the key assumptions concerning the future, and key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### ESTIMATED IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2009, the carrying amount of goodwill is Rmb86,867,000 (2008: Rmb86,867,000). Details of the recoverable amount calculation are disclosed in Note 23.

### ESTIMATED IMPAIRMENT OF INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Determining whether intangible assets with indefinite useful lives are impaired requires an estimation of the value in use of themselves or the cash-generating unit to which they belong. The value in use calculation requires the Group to estimate the future cash flows expected to arise from themselves or the cash-generating unit to which they belong and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2009, the carrying amounts of intangible assets with indefinite useful lives were Rmb66,563,000 (2008: Rmb66,563,000). Details of the recoverable amount calculation are disclosed in Note 23.

### PROVISION AGAINST LITIGATION AND GUARANTEES

Measuring the provision against litigation and guarantees requires an estimation of the expenditure required to settle the obligation arising from the litigation and guarantees. The settlement amount depends on such factors as the totality of facts, interpretation and application of laws and regulation, and court rulings. Where the court rules differently than the Group has expected, the ultimate settlement amount may be materially different from the provision that has been made and affect the Group's profit and loss in future periods. At December 31, 2009, the Group has made provision against litigation and guarantee of Rmb122,477,000 (2008: provision of Rmb33,864,000 and reverse of provision of Rmb 164,024,000) . Details of the provision are disclosed in Note 37.

# 5. FINANCIAL INSTRUMENTS

## (A) CATEGORIES OF FINANCIAL INSTRUMENTS

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| **Financial assets** | | |
| Available-for-sale investments | **55,704** | 29,001 |
| Fair value through profit of loss | | |
| Held for trading investments | **517,895** | 247,587 |
| Loans and receivables | | |
| (including cash and cash equivalents) | **17,257,635** | 10,094,912 |
| **Financial liabilities** | | |
| Amortised cost | **14,223,057** | 8,050,884 |

## (B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, held for trading investments, trade and other receivables, bank balances, bank balances held on behalf of customers, trade and other payables, dividends payable, interest-bearing bank and other loans, and long-term bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest risk, currency risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### Market risk

*(i) Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate structured deposit, time deposits and long-term bonds (see Notes 30, 32 and 38 for details).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and interest-bearing bank and other loans (see Notes 32 and 36 for details).

The Group currently does not have an interest rate risk hedging policy as the management consider the Group is not exposed to significant interest rate risk. The management will continue to monitor interest rate risk exposure and consider hedging against it should the need arises.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

## 5. FINANCIAL INSTRUMENTS *(continued)*

### (B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

**Market risk** *(continued)*

*(i) Interest rate risk (continued)*

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments, comprising variable-rate bank balances and bank and other loans, at the end of the reporting period.

The analysis was prepared assuming the balances outstanding at the end of the reporting period were outstanding for the whole year. A 30 basis point increase or decrease was used when reporting interest rate risk internally to key management personnel.

If interest rates had been 30 basis points (2008: 30 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended December 31, 2009 would increase/decrease by Rmb36,357,000 (2008: Rmb19,733,000). This was mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances.

*(ii) Currency risk*

Several subsidiaries of the Company have foreign currency denominated monetary assets and liabilities, which expose the Group to foreign currency risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the end of the reporting period are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **Rmb'000** | Rmb'000 | **Rmb'000** | Rmb'000 |
| Hong Kong dollar ("HKD") | **18,954** | 12,518 | **14,288** | 8,734 |
| United Sates dollar ("USD") | **81,650** | 64,713 | **478,611** | 519,409 |

The Group currently does not have a currency risk hedging policy as the management considers that the risk is not significant. The management will continue to monitor foreign currency risk exposure and consider hedging against it should the need arises.

## 5. FINANCIAL INSTRUMENTS *(continued)*

### (B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

*(ii) Currency risk (continued)*

*Sensitivity analysis*

The Group is mainly exposed to HKD and USD.

This sensitivity analysis details the Group's sensitivity to a 5% (2008: 5%) increase and decrease in Rmb against HKD and USD. 5% (2008: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2008: 5%) change in foreign currency rates. If Rmb had strengthened/weakened 5% against HKD, the Group's post-tax profit for the year ended December 31, 2009 would have decreased/increased by Rmb175,000 (2008: Rmb142,000). If Rmb had strengthened/weakened 5% against USD, the Group's post-tax profit for the year ended December 31, 2009 would have increased/decreased by Rmb14,886,000 (2008: Rmb17,051,000).

*(iii) Other price risk*

The Group is exposed to equity and debt security price risk in relation to its held for trading and available-for-sale listed investments.

The Group currently does not have a price risk hedging policy as the management consider the Group is not exposed to significant price risk. The management will continue to monitor price risk exposure and consider hedging against it should the need arises.

*Sensitivity analysis*

The sensitivity analyses below have been determined based on the exposure to equity and debt security price risks at the end of the reporting period.

If the prices of the respective equity and debt instruments had been 5% (2008: 5%) higher/lower,

- post-tax profit for the year ended December 31, 2009 would increase/decrease by Rmb19,421,000 (2008: increase/decrease by Rmb9,285,000) as a result of the changes in fair value of held for trading investments; and

- investment valuation reserve would increase/decrease by Rmb2,051,000 (2008: Rmb1,050,000) as a result of the changes in fair value of available-for-sale listed investments.

## 5. FINANCIAL INSTRUMENTS *(continued)*

### (B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

**Credit risk**

As at December 31, 2009, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than the concentration of credit risk on certain trade receivable, other receivables from related parties, corporate bonds and structured deposit amounting to Rmb45,140,000 (2008: Rmb71,640,000), Rmb120,000,000 (2008: Rmb58,046,000), Rmb511,344,000 (2008: Rmb238,977,000) and Nil (2008: Rmb204,667,000) as disclosed in Notes 27, 28, 29 and 30, respectively, the Group does not have any other significant concentration of credit risk. The Group's concentration of credit risk by geographical location is mainly in the PRC.

**Liquidity risk**

Most of the bank balances and cash at December 31, 2009 were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is regulated by the PRC government and the remittance of these RMB funds out of the PRC is subject to foreign exchange controls imposed by the PRC government.

The Group closely monitors its cash position resulting from its operations and maintains a level of cash and cash equivalents deemed adequate by the management to enable the Group to meet in full its financial obligations as they fall due for the foreseeable future.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

## 5. FINANCIAL INSTRUMENTS *(continued)*

### (B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

**Liquidity risk** *(continued)*

*Liquidity and interest risk tables*

| | Weighted average interest rate % | Less than 3 months Rmb'000 | 3 months - 1 year Rmb'000 | 1 - 3 years Rmb'000 | 3 - 5 years Rmb'000 | +5 years Rmb'000 | Total undiscounted cash flows Rmb'000 | Carrying amount at 31/12/2009 Rmb'000 |
|---|---|---|---|---|---|---|---|---|
| **2009** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade payables | — | 410,900 | 236,473 | | | | 647,373 | 647,373 |
| Accounts payable to customers arising from securities dealing business | — | 11,502,930 | — | — | — | — | 11,502,930 | 11,502,930 |
| Other payables | — | 450,370 | — | — | — | — | 450,370 | 450,370 |
| Bank and other loans | | | | | | | | |
| – fixed rate | 5.31 | 30,133 | 176,770 | — | — | — | 206,903 | 200,000 |
| – variable rate | 2.58 | 195,734 | 87,475 | 146,962 | — | — | 430,171 | 422,384 |
| Long-term bonds | 4.29 | 42,900 | — | 85,800 | 1,042,900 | — | 1,171,600 | 1,000,000 |
| | | 12,632,967 | 500,718 | 232,762 | 1,042,900 | — | 14,409,347 | 14,223,057 |

## 5. FINANCIAL INSTRUMENTS *(continued)*

### (B) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

**Liquidity risk** *(continued)*

*Liquidity and interest risk tables (continued)*

| | Weighted average interest rate % | Less than 3 months Rmb'000 | 3 months - 1 year Rmb'000 | 1 - 3 years Rmb'000 | 3 - 5 years Rmb'000 | +5 years Rmb'000 | Total undiscounted cash flows Rmb'000 | Carrying amount at 31/12/2008 Rmb'000 |
|---|---|---|---|---|---|---|---|---|
| 2008 | | | | | | | | |
| Non-derivative financial liabilities | | | | | | | | |
| Trade payables | — | 216,913 | 198,183 | | | — | 415,096 | 415,096 |
| Accounts payable to customers arising from securities dealing business | — | 5,607,473 | — | — | — | — | 5,607,473 | 5,607,473 |
| Other payables | — | 415,952 | 2,599 | — | — | — | 418,551 | 418,551 |
| Bank and other loans | | | | | | | | |
| – fixed rate | 6.21 | 30,465 | — | — | — | — | 30,465 | 30,000 |
| – variable rate | 2.33 | 168,296 | 196,156 | 184,410 | 60,626 | — | 609,488 | 579,764 |
| Long-term bonds | 4.29 | 42,900 | — | 85,800 | 1,085,800 | — | 1,214,500 | 1,000,000 |
| | | 6,481,999 | 396,938 | 270,210 | 1,146,426 | — | 8,295,573 | 8,050,884 |

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of the interest rates determined at the end of the reporting period.

### (C) FAIR VALUE

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Notes 36 and 38, equity attributable to owners of the Company, comprising issued share capital, reserves and retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

## 7. SEGMENT INFORMATION

The Group has adopted HKFRS 8 *Operating Segments* with effect from January 1, 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, the Group's Chief Executive Officer, for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14, *Segment Reporting*) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach.

In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has resulted in a redesignation of the Group's reportable segments and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities as compared with the primary reportable segments determined in accordance with HKAS 14.

In prior years, segment information reported externally was analysed on the basis of the types of goods supplied and services provided by the Group's operating divisions (i.e. toll operation, service area business, advertising business and securities operation). However, for the purpose of resources allocation and performance assessment, the chief operating decision maker reviews operating results and financial information on a subsidiary by subsidiary basis. Each subsidiary represents an operating segment. Subsidiaries with similar economic characteristics, similar operation process and similar class of customers are aggregated into a single reportable segment. Accordingly, the Group's reportable segments under HKFRS 8 are as follows:

(i) Toll operation – the operation and management of high grade roads and the collection of the expressway tolls

(ii) Service area and advertising businesses – the sale of food, restaurant operation, automobile servicing, operation of petrol stations and design and rental of advertising billboards along the expressways

(iii) Securities operation – the securities broking and proprietary trading

Information regarding the reportable segments is reported below. Amounts reported for the prior year have been restated to conform to the requirements of HKFRS 8.

## 7. SEGMENT INFORMATION *(Continued)*

### SEGMENT REVENUE AND RESULTS

The following is an analysis of the Group's revenue and results by reportable segment.

**For the year ended December 31, 2009**

| | Toll operation Rmb'000 | Service area and advertising businesses Rmb'000 | Securities operation Rmb'000 | Elimination Rmb'000 | Total Rmb'000 |
|---|---|---|---|---|---|
| Revenue | | | | | |
| External sales | **3,107,505** | **1,259,888** | **1,668,901** | **—** | **6,036,294** |
| Inter-segment sales | **—** | **1,785** | **—** | **(1,785)** | **—** |
| Total | **3,107,505** | **1,261,673** | **1,668,901** | **(1,785)** | **6,036,294** |
| Segment profit | **1,557,013** | **69,902** | **617,158** | | **2,244,073** |

For the year ended December 31, 2008

| | Toll operation Rmb'000 | Service area and advertising businesses Rmb'000 | Securities operation Rmb'000 | Elimination Rmb'000 | Total Rmb'000 |
|---|---|---|---|---|---|
| Revenue | | | | | |
| External sales | 3,455,627 | 1,752,254 | 1,115,589 | — | 6,323,470 |
| Inter-segment sales | — | — | — | — | — |
| Total | 3,455,627 | 1,752,254 | 1,115,589 | — | 6,323,470 |
| Segment profit | 1,755,032 | 111,666 | 398,453 | | 2,265,151 |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the profit after tax of each reportable segment. This is the measure reported to the chief operating decision maker, the Group's Chief Executive Officer, for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

## 7. SEGMENT INFORMATION *(Continued)*

### SEGMENT ASSETS AND LIABILITIES

The following is an analysis of the Group's assets and liabilities by reportable segment at the end of the reporting period:

| | Segment assets | | Segment liabilities | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **Rmb'000** | Rmb'000 | **Rmb'000** | Rmb'000 |
| Toll operation | **16,130,461** | 15,688,074 | **(2,911,913)** | (2,862,178) |
| Service area and advertising businesses | **752,089** | 570,558 | **(353,202)** | (211,006) |
| Securities operation | **15,433,364** | 8,942,022 | **(12,072,812)** | (5,917,069) |
| Total segment assets (liabilities) | **32,315,914** | 25,200,654 | **(15,337,927)** | (8,990,253) |
| Goodwill | **86,867** | 86,867 | **—** | — |
| Consolidated assets (liabilities) | **32,402,781** | 25,287,521 | **(15,337,927)** | (8,990,253) |

Segment assets and segment liabilities represent the assets and liabilities of the subsidiaries operating in the respective reportable segment.

## 7. SEGMENT INFORMATION *(Continued)*

### OTHER SEGMENT INFORMATION

Amounts included in the measure of segment profit or loss or segment assets:

| | Toll operation Rmb'000 | Service area and advertising businesses Rmb'000 | Securities operation Rmb'000 | Total Rmb'000 |
|---|---|---|---|---|
| **For the year ended December 31, 2009** | | | | |
| Income tax expense | **543,669** | **21,323** | **275,063** | **840,055** |
| Interest income | **26,413** | **4,314** | **—** | **30,727** |
| Interest expense | **56,613** | **6,111** | **—** | **62,724** |
| Interests in associates | **206,881** | **223,384** | **4,742** | **435,007** |
| Interest in a jointly controlled entity | **—** | **—** | **—** | **—** |
| Share result of associates | **(27,164)** | **2,258** | **742** | **(24,164)** |
| Share result of jointly controlled entity | **21,254** | **—** | **—** | **21,254** |
| Addition to non-current assets (Note) | **555,957** | **37,743** | **93,706** | **687,406** |
| Depreciation and amortisation | **734,564** | **29,750** | **49,383** | **813,697** |
| Loss on disposal of property, plant and equipment | **21,119** | **689** | **11,264** | **33,072** |
| For the year ended December 31, 2008 | | | | |
| Income tax expense | 590,438 | 16,313 | 62,177 | 668,928 |
| Interest income | 54,147 | 5,635 | — | 59,782 |
| Interest expense | 69,747 | 7,062 | — | 76,809 |
| Interests in associates | 243,344 | 220,918 | — | 464,262 |
| Interest in a jointly controlled entity | 124,251 | — | — | 124,251 |
| Share result of associates | (27,638) | 38,297 | — | 10,659 |
| Share result of jointly controlled entity | 23,746 | — | — | 23,746 |
| Addition to non-current assets (Note) | 131,034 | 67,633 | 113,130 | 311,797 |
| Depreciation and amortisation | 729,124 | 22,363 | 30,607 | 782,094 |
| Loss (gain) on disposal of property, plant and equipment | 3,045 | 3,264 | (233) | 6,076 |

Note: Non-current assets excluded financial instruments.

## 7. SEGMENT INFORMATION *(Continued)*

### REVENUE FROM MAJOR SERVICES

An analysis of the Group's revenue, net of discounts and taxes, for the year is as follows:

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| Toll operation revenue | **3,107,505** | 3,455,627 |
| Service area businesses revenue | **1,178,318** | 1,670,435 |
| Advertising business revenue | **77,786** | 78,032 |
| Commission income from securities operation | **1,498,827** | 947,861 |
| Interest income from securities operation | **170,074** | 167,728 |
| Others | **3,784** | 3,787 |
| | **6,036,294** | 6,323,470 |

### GEOGRAPHICAL INFORMATION

The Group's operations are located in the PRC (country of domicile). All non-current assets of the Group are located in the PRC.

All of the Group's revenue from external customers is attributed to the group entities' country of domicile (i.e. the PRC).

### INFORMATION ABOUT MAJOR CUSTOMERS

During the years ended December 31, 2008 and 2009, there are no individual customers with sales of 10% or more of the Group's total sales.

## 8. SECURITIES INVESTMENT GAINS (LOSSES)

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| Profit (loss) on fair value changes on held for trading investments | **22,335** | (201,741) |
| Cumulative gain (loss) reclassified from equity on disposal of available-for-sale investments | **13,632** | (89,680) |
| Impairment loss on available-for-sale investments | **—** | (24,792) |
| | **35,967** | (316,213) |

The above securities investment gains (losses) wholly contributed from listed investments in both years.

## 9. OTHER INCOME

| | 2009 Rmb'000 | 2008 Rmb'000 |
|---|---|---|
| Interest income on bank balances and an entrusted loan receivable | **27,613** | 55,115 |
| Rental income | **58,697** | 40,858 |
| Net exchange gain | **547** | 40,143 |
| Handling fee income | **28,644** | 22,863 |
| Towing income | **11,243** | 15,095 |
| Gain on disposal of an associate | **—** | 8,375 |
| Gain on disposal of a jointly controlled entity (Note 25) | **274,494** | — |
| Interest income from structured deposit | **3,114** | 4,667 |
| Others | **21,928** | 24,304 |
| | **426,280** | 211,420 |

## 10.FINANCE COSTS

| | 2009 Rmb'000 | 2008 Rmb'000 |
|---|---|---|
| Interest on bank loans wholly repayable within five years | **6,111** | 18,332 |
| Interest on other loans | **13,713** | 15,577 |
| Interest on long-term bonds | **42,900** | 42,900 |
| | **62,724** | 76,809 |

## 11.PROFIT BEFORE TAX

The Group's profit before tax has been arrived at after charging:

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| Depreciation of property, plant and equipment | **122,774** | 112,140 |
| Amortisation of prepaid lease payments | **1,265** | 1,503 |
| Amortisation of expressway operating rights (included in operating costs) | **676,220** | 659,027 |
| Amortisation of other intangible assets (included in operating costs) | **13,438** | 9,424 |
| Total depreciation and amortisation | **813,697** | 782,094 |
| Staff costs (including directors and supervisors): | | |
| – Wages and salaries | **399,663** | 292,193 |
| – Pension scheme contributions | **33,244** | 32,316 |
| | **432,907** | 324,509 |
| Auditors' remuneration | **5,408** | 7,576 |
| Loss on disposal of property, plant and equipment | **33,072** | 6,076 |
| Cost of inventories recognised as an expense | **1,041,496** | 1,518,520 |
| Impairment loss on interest in an associate (included in other expenses) | **9,298** | — |
| Provision for litigation (included in other expenses) | **95,660** | — |

## 12. INCOME TAX EXPENSE

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| PRC Enterprise Income Tax: | | |
| Current tax | **855,430** | 731,019 |
| | **855,430** | 731,019 |
| Deferred tax (Note 39): | | |
| Current year | **(15,375)** | (62,091) |
| | **840,055** | 668,928 |

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group is 25% from January 1, 2008 onwards.

No Hong Kong Profits Tax has been provided as the Group's income neither arises in, nor is derived from Hong Kong during the year.

The tax charge for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| Profit before tax | **3,084,128** | 2,934,079 |
| Tax at the PRC enterprise income tax rate of 25% (2008: 25%) | **771,032** | 733,520 |
| Tax effect of share of loss (profit) of associates | **6,041** | (2,665) |
| Tax effect of share of profit of a jointly controlled entity | **(5,314)** | (5,937) |
| Tax effect of income not taxable for tax purposes | **(22)** | (23,505) |
| Tax effect of expenses not deductible for tax purposes | **68,318** | 5,606 |
| Overprovision of the PRC enterprise income tax in prior year | **—** | (38,091) |
| Tax charge for the year | **840,055** | 668,928 |

## 13.OTHER COMPREHENSIVE INCOME

Tax effect relating to other comprehensive income as follows:

| | Year ended December 31, 2009 | | | Year ended December 31, 2008 | | |
|---|---|---|---|---|---|---|
| | Before-tax amount Rmb'000 | Tax (expense) benefit Rmb'000 | Net-of-tax amount Rmb'000 | Before-tax amount Rmb'000 | Tax (expense) benefit Rmb'000 | Net-of-tax amount Rmb'000 |
| Gains (losses) on available-for-sale financial assets arising during the year | **34,234** | **(8,558)** | **25,676** | (345,081) | 86,270 | (258,811) |
| Reclassification adjustments for the cumulative (gain) loss included in profit or loss upon disposal of available-for-sale financial assets | **(13,632)** | **3,408** | **(10,224)** | 89,680 | (22,420) | 67,260 |
| Reclassification adjustments upon impairment of available-for-sale financial assets | **—** | **—** | **—** | 24,792 | (6,198) | 18,594 |
| Total | **20,602** | **(5,150)** | **15,452** | (230,609) | 57,652 | (172,957) |

## 14. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments paid or payable to each of the 11 (2008: 9) directors and 5(2008: 5) supervisors are as follows:

| | Chen Jisong Rmb'000 (Note i) | Zhan Xiaozhang Rmb'000 (Note i) | Zhang Jingzhong Rmb'000 | Jiang Wenyao Rmb'000 | Geng Xiaoping Rmb'000 (Note ii) | Fang Yunti Rmb'000 (Note ii) | Zhang Luyun^ Rmb'000 | Zhang Yang^ Rmb'000 | Tung Chee Chen* Rmb'000 | Zhang Junsheng* Rmb'000 | Zhang Liping* Rmb'000 | Ma Kehua# Rmb'000 | Fang Zhexing# Rmb'000 | Zheng Qihua# Rmb'000 | Jiang Shaozhong# Rmb'000 | Wu Yongmin# Rmb'000 | Total Rmb'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2009** | | | | | | | | | | | | | | | | | |
| Salaries, allowances and benefits in kind | 3 | 404 | 376 | 361 | 90 | 76 | 4 | 4 | 222 | 54 | 222 | 3 | 4 | 3 | 3 | 2 | 1,831 |
| Bonuses paid and payable | — | 276 | 209 | 224 | 61 | 37 | — | — | — | — | — | — | — | — | — | — | 807 |
| Pension scheme contributions | — | 13 | 15 | 15 | — | 3 | — | — | — | — | — | — | — | — | — | — | 46 |
| Total emoluments | 3 | 693 | 600 | 600 | 151 | 116 | 4 | 4 | 222 | 54 | 222 | 3 | 4 | 3 | 3 | 2 | 2,684 |
| 2008 | | | | | | | | | | | | | | | | | |
| Salaries, allowances and benefits in kind | — | — | 294 | 254 | 529 | 400 | 2 | 2 | 251 | 52 | 252 | 2 | 2 | — | 3 | 1 | 2,044 |
| Bonuses paid and payable | — | — | 289 | 327 | 355 | 286 | — | — | — | — | — | — | — | — | — | — | 1,257 |
| Pension scheme contributions | — | — | 14 | 14 | 14 | 14 | — | — | — | — | — | — | — | — | — | — | 56 |
| Total emoluments | — | — | 597 | 595 | 898 | 700 | 2 | 2 | 251 | 52 | 252 | 2 | 2 | — | 3 | 1 | 3,357 |

^ Non-executive directors

* Independent non-executive directors

\# Supervisors

## 14. DIRECTORS' AND SUPERVISORS' EMOLUMENTS *(Continued)*

Notes:

(i) Appointed on March 1, 2009.

(ii) Resigned on February 28, 2009.

Other than Mr. Geng Xiaoping in 2008, the emoluments of each of the directors and supervisors were below HK$1,000,000 (equivalent to Rmb881,900) in both years. Bonuses paid to directors and supervisors are determined by the Remuneration Committee of the Company, which comprises three independent non-executive directors.

No directors or supervisors waived any emoluments and no incentive was paid to any directors or supervisors as an inducement to join the Company and no compensation for loss of office was paid to any directors, supervisors, past directors or past supervisors during both years. Bonuses are determined by reference to the individual performance of the directors.

## 15. EMPLOYEES' EMOLUMENTS

The emoluments of the five highest paid individuals in the Group are as follows:

| | **2009 Rmb'000** | 2008 Rmb'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **10,426** | 7,769 |
| Bonuses paid and payable | **658** | 5,018 |
| Pension scheme contributions | **57** | 85 |
| Incentive paid | **2,500** | 7,400 |
| Compensation for loss of office | **—** | — |
| | **13,641** | 20,272 |

The five individuals with the highest emoluments in the Group during the year included no (2008: no) director, whose emoluments are set out in Note 14 above, and five (2008: five) non-director employees.

Their emoluments are within the following bands:

| | **No. of individuals** | |
|---|---|---|
| | **2009** | 2008 |
| HK$2,000,001 to HK$2,500,000 (equivalent to Rmb1,760,001 to Rmb2,200,000) | **2** | — |
| HK$2,500,001 to HK$3,000,000 (equivalent to Rmb2,200,001 to Rmb2,640,000) | **2** | — |
| HK$3,000,001 to HK$3,500,000 (equivalent to Rmb2,640,001 to Rmb3,080,000) | **—** | 1 |
| HK$4,000,001 to HK$4,500,000 (equivalent to Rmb3,520,001 to Rmb3,960,000) | **—** | 2 |
| HK$4,500,001 to HK$5,000,000 (equivalent to Rmb3,960,001 to Rmb4,400,000) | **1** | 1 |
| HK$6,000,001 to HK$6,500,000 (equivalent to Rmb5,280,001 to Rmb5,720,000) | **—** | 1 |

## 16.DIVIDENDS

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| Dividends recognised as distribution during the year: | | |
| 2009 Interim – Rmb6 cents (2008: 2008 interim Rmb7 cents) per share | **260,587** | 304,018 |
| 2008 Final – Rmb24 cents (2008: 2007 Final Rmb24 cents) per share | **1,042,347** | 1,042,347 |
| | **1,302,934** | 1,346,365 |

The final dividend of Rmb25 cents per share in respect of the year ended December 31, 2009 (2008: final dividend of Rmb24 cents per share in respect of the year ended December 31, 2008) has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

## 17.EARNINGS PER SHARE

The calculation of the basic earnings per share is based on profit for the year attributable to owners of the Company of Rmb1,795,488,000 (2008: Rmb1,892,787,000) and the 4,343,114,500 (2008: 4,343,114,500) ordinary shares in issue during the year.

No diluted earnings per share has been presented as there were no potential ordinary shares in issue for the year ended December 31, 2008 and 2009.

## 18.PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings Rmb'000 | Ancillary facilities Rmb'000 | Communications and signalling equipment Rmb'000 | Motor vehicles Rmb'000 | Machinery and equipment Rmb'000 | Construction in progress Rmb'000 | Total Rmb'000 |
|---|---|---|---|---|---|---|---|
| COST | | | | | | | |
| At January 1, 2008 | 340,935 | 423,232 | 240,490 | 152,641 | 258,020 | 6,326 | 1,421,644 |
| Additions | 78,181 | 60,667 | 25,746 | 22,847 | 48,811 | 8,502 | 244,754 |
| Transfer | — | 6,326 | — | — | — | (6,326) | — |
| Disposals | (6,150) | (4,367) | — | (2,241) | (558) | — | (13,316) |
| At December 31, 2008 and January 1, 2009 | 412,966 | 485,858 | 266,236 | 173,247 | 306,273 | 8,502 | 1,653,082 |
| Additions | 36,559 | 22,112 | 39,936 | 11,007 | 45,580 | 8,866 | 164,060 |
| Transfer | — | 14,955 | — | — | — | (14,955) | — |
| Disposals | (12,491) | (21,131) | — | (6,979) | (35,233) | — | (75,834) |
| At December 31, 2009 | 437,034 | 501,794 | 306,172 | 177,275 | 316,620 | 2,413 | 1,741,308 |
| DEPRECIATION | | | | | | | |
| At January 1, 2008 | 30,014 | 95,020 | 166,984 | 97,266 | 125,483 | — | 514,767 |
| Provided for the year | 14,744 | 24,461 | 20,388 | 15,473 | 37,074 | — | 112,140 |
| Disposals | (2,197) | (969) | — | (1,815) | (92) | — | (5,073) |
| At December 31, 2008 and January 1, 2009 | 42,561 | 118,512 | 187,372 | 110,924 | 162,465 | — | 621,834 |
| Provided for the year | 17,500 | 24,163 | 36,635 | 14,396 | 30,080 | — | 122,774 |
| Disposals | (12,486) | (15,727) | — | (6,691) | (4,024) | — | (38,928) |
| At December 31, 2009 | 47,575 | 126,948 | 224,007 | 118,629 | 188,521 | — | 705,680 |
| CARRYING VALUES | | | | | | | |
| At December 31, 2009 | 389,459 | 374,846 | 82,165 | 58,646 | 128,099 | 2,413 | 1,035,628 |
| At December 31, 2008 | 370,405 | 367,346 | 78,864 | 62,323 | 143,808 | 8,502 | 1,031,248 |

The property, plant and equipment are mainly located in the PRC.

## 18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The carrying value of properties shown above comprises:

| | **2009**<br>**Rmb'000** | 2008<br>Rmb'000 |
|---|---|---|
| Leasehold land and buildings in the PRC: | | |
| Long lease | **25,976** | 26,514 |
| Medium-term lease | **363,483** | 343,891 |
| | **389,459** | 370,405 |

## 19. PREPAID LEASE PAYMENTS

| | **2009**<br>**Rmb'000** | 2008<br>Rmb'000 |
|---|---|---|
| Analysed for reporting purposes as: | | |
| Current assets | **1,421** | 1,265 |
| Non-current assets | **30,342** | 47,654 |
| | **31,763** | 48,919 |

The Group's prepaid lease payments comprise leasehold land in the PRC under medium-term lease.

The amount represents prepayment of rentals under operating leases for "land use rights" situated in the PRC.

## 20.EXPRESSWAY OPERATING RIGHTS

| | **Rmb'000** |
|---|---|
| COST | |
| At January 1, 2008 | 16,197,496 |
| Addition | 60,252 |
| At December 31, 2008 and January 1, 2009 | 16,257,748 |
| Addition | 507,581 |
| At December 31, 2009 | 16,765,329 |
| AMORTISATION | |
| At January 1, 2008 | 2,674,744 |
| Charge for the year | 659,027 |
| At December 31, 2008 and January 1, 2009 | 3,333,771 |
| Charge for the year | 676,220 |
| At December 31, 2009 | 4,009,991 |
| CARRYING VALUES | |
| At December 31, 2009 | 12,755,338 |
| At December 31, 2008 | 12,923,977 |

The above expressway operating rights were granted by the Zhejiang Provincial Government to the Group for 30 years. During the expressway concessionary period, the Group has the rights of operation and management of Shanghai-Hangzhou-Ningbo Expressway and Shangsan Expressway and the toll-collection rights thereof. The Group is required to manage and operate the expressways in accordance with the regulations promulgated by the Ministry of Communication and relevant government authorities. Upon the end of the respective concession service periods, the toll expressways and their toll station facilities will be returned to the grantors at zero consideration.

## 21.GOODWILL

| | Rmb'000 |
|---|---|
| COST AND CARRYING VALUES | |
| At January 1, 2008, December 31, 2008, January 1, 2009 and December 31, 2009 | 86,867 |

Particulars regarding impairment testing on goodwill are disclosed in Note 23.

## 22.OTHER INTANGIBLE ASSETS

| | Customer bases Rmb'000 | Securities/ futures firm licenses Rmb'000 | Trading seats Rmb'000 | Software licenses Rmb'000 | Total Rmb'000 |
|---|---|---|---|---|---|
| COST | | | | | |
| At January 1, 2008 | 101,147 | 63,083 | 3,480 | 4,938 | 172,648 |
| Additions | — | — | — | 5,263 | 5,263 |
| Written off | — | — | — | (132) | (132) |
| At December 31, 2008 and January 1, 2009 | 101,147 | 63,083 | 3,480 | 10,069 | 177,779 |
| Additions | — | — | — | 10,192 | 10,192 |
| **At December 31, 2009** | **101,147** | **63,083** | **3,480** | **20,261** | **187,971** |
| AMORTISATION | | | | | |
| At January 1, 2008 | 9,796 | — | — | 626 | 10,422 |
| Charge for the year | 8,650 | — | — | 774 | 9,424 |
| Written off | — | — | — | (132) | (132) |
| At December 31, 2008 and January 1, 2009 | 18,446 | — | — | 1,268 | 19,714 |
| Charge for the year | 8,650 | — | — | 4,788 | 13,438 |
| **At December 31, 2009** | **27,096** | **—** | **—** | **6,056** | **33,152** |
| CARRYING VALUES | | | | | |
| **At December 31, 2009** | **74,051** | **63,083** | **3,480** | **14,205** | **154,819** |
| At December 31, 2008 | 82,701 | 63,083 | 3,480 | 8,801 | 158,065 |

The above intangible assets, other than part of software licenses, were purchased as part of business combinations in 2006 and 2007. Other software licenses were acquired from third parties.

The customer bases of the securities operation have a definite useful life. The customer bases of Zheshang Securities Co., Ltd ("Zheshang Securities") and Zhejiang Tianma Futures Broker Co., Ltd ("Tianma Futures") are amortised on a straight-line basis over 15 years and 3 years respectively.

The securities/futures firm licenses of the securities operation are considered by the management of the Group to have an indefinite useful life because they can be renewed at minimal cost even though the current licenses are effective for three years.

## 22. OTHER INTANGIBLE ASSETS *(Continued)*

The trading seats of the securities operation is considered by the management of the Group to have an indefinite useful life because there is no economic or regulatory limit to their useful life.

Software licenses are amortised on a straight-line basis over three to five years.

Particulars of the impairment testing on intangible assets with indefinite useful lives are disclosed in Note 23.

## 23. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

For the purposes of impairment testing, goodwill and other intangible assets with indefinite useful lives set out in Notes 21 and 22 have been allocated to four individual cash generating units ("CGUs"), including two subsidiaries in toll operation segment and two subsidiaries in securities operation segment. The carrying amounts of goodwill and other intangible assets (net of accumulated impairment losses) as at December 31, 2008 and 2009 allocated to these units are as follows:

| | Goodwill | | Securities/futures firm licenses | | Trading seats | |
|---|---|---|---|---|---|---|
| | **2009 Rmb'000** | 2008 Rmb'000 | **2009 Rmb'000** | 2008 Rmb'000 | **2009 Rmb'000** | 2008 Rmb'000 |
| Toll operation | | | | | | |
| – Zhejiang Jiaxing Expressway Co., Ltd. ("Jiaxing Co") | **75,137** | 75,137 | **—** | — | **—** | — |
| – Zhejiang Shangsan Expressway Co., Ltd. ("Shangsan Co") | **10,335** | 10,335 | **—** | — | **—** | — |
| Securities operation | | | | | | |
| – Zheshang Securities | **—** | — | **51,783** | 51,783 | **2,080** | 2,080 |
| – Tianma Futures | **1,395** | 1,395 | **11,300** | 11,300 | **1,400** | 1,400 |
| | **86,867** | 86,867 | **63,083** | 63,083 | **3,480** | 3,480 |

During the year ended December 31, 2009, the management of the Group determines that there are no impairment of any of its CGUs containing goodwill and other intangible assets with indefinite useful lives.

## 23.IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES *(Continued)*

The basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

### JIAXING CO AND SHANGSAN CO

The recoverable amounts of Jiaxing Co and Shangsan Co are determined based on value in use calculations. The key assumptions for the value in use calculations relate to discount rates, growth rates, and expected changes in toll revenue and direct costs during the forecast period. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 15% (2008: 15%). No growth rate has been assumed beyond the five-year period up to the remaining toll road operating rights which are nineteen years and twenty-one years for Jiaxing Co. and Shangsan Co., respectively.

### ZHESHANG SECURITIES

The recoverable amount of Zheshang Securities is determined based on value in use calculations. The key assumptions for the value in use calculations relate to the discount rate, growth rates and profit margin during the forecast period. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 17.5% (2008: 23.5%).

### TIANMA FUTURES

The recoverable amount of Tianma Futures is determined based on value in use calculations. The key assumptions for the value in use calculations relate to the discount rate, growth rates and profit margin during the forecast period. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 17.5% (2008: 19.3%).

## 24.INTERESTS IN ASSOCIATES

| | **2009** **Rmb'000** | 2008 Rmb'000 |
|---|---|---|
| Unlisted investments in associates, at cost | **426,241** | 431,290 |
| Share of post-acquisition profits, net of dividends received | **8,766** | 32,972 |
| | **435,007** | 464,262 |

At December 31, 2008 and 2009, the Group had interests in the following associates:

| **Name of entity** | **Form of business structure** | **Place of registration and operation** | **Percentage of equity interest attributable to the Group** | | **Principal activities** |
|---|---|---|---|---|---|
| | | | **2009** **%** | 2008 % | |
| Zhejiang Expressway Petroleum Development Co., Ltd. ("Petroleum Co") | Corporate | The PRC | **50** | 50 | Operation of petrol stations and sale of petroleum products |
| JoinHands Technology Co., Ltd. | Corporate | The PRC | **27.58** | 27.58 | Provision of printing services and property leasing |
| Zhejiang Concord Property Investment Co., Ltd. | Corporate | The PRC | **22.95** | 22.95 | Investment and real estate development |
| Hangzhou Tianjun Industrial Co., Ltd | Corporate | The PRC | **29.45** | — | Investment and portfolio management |
| Hangzhou Yuhang Communication Time Plaza Co., Ltd. ("Time Plaza Co") (Note i) | Corporate | The PRC | **16.57** | 15.3 | Investment and real estate development |
| Ningbo Expressway Advertising Co., Ltd. ("Ningbo Advertising Co") (Note ii) | Corporate | The PRC | **12.5** | 12.5 | Management of advertising billboards along expressways |
| Zhejiang Jinhua Yongjin Expressway Co., Ltd. ("Yongjin") | Corporate | The PRC | **23.45** | 23.45 | Management of the Jinhua section of the Ningbo-Jinhua Expressway |

## 24. INTERESTS IN ASSOCIATES *(Continued)*

Notes:

(i) The Group is able to exercise significant influence over Time Plaza Co because it has the power to appoint one out of five directors of that company under the provisions stated in the Articles of Association of that company.

(ii) The Group is able to exercise significant influence over Ningbo Advertising Co because it has the power to appoint two out of five directors of that company under the provisions stated in the Articles of Association of that company.

During the year ended December 31, 2009, the Group recognised an impairment loss of Rmb9,298,000 (2008: Nil) in relation to interest in an associate, Yongjin.

The recoverable amounts of Yongjin are determined based on value in use calculations. The key assumptions for the value in use calculations relate to discount rates, growth rates, and expected changes in toll revenue and direct costs during the forecast period. Those calculations use cash flow projections based on financial budgets approved by management covering a twenty-year period and a discount rate of 8%.

The summarised financial information in respect of the Group's associates at the end of the reporting period is set out below:

| | **2009**<br>**Rmb'000** | 2008<br>Rmb'000 |
|---|---|---|
| Total assets | **4,754,409** | 4,089,893 |
| Total liabilities | **(3,265,061)** | (2,537,904) |
| Net assets | **1,489,348** | 1,551,989 |
| Group's share of net assets of associates | **435,007** | 464,262 |
| Revenue | **2,907,878** | 3,874,147 |
| Loss for the year | **(104,542)** | (59,378) |
| Other comprehensive income | **—** | — |
| Group's share of results of associates for the year | **(24,164)** | 10,659 |

## 25. INTEREST IN A JOINTLY CONTROLLED ENTITY

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| Cost of investment in a jointly controlled entity | — | 65,000 |
| Share of post-acquisition profits, net of dividends received | — | 59,251 |
| | — | 124,251 |

At December 31, 2008, the Group had a 50% equity interests in a jointly controlled entity, Hangzhou Shida Expressway Co., Ltd. ("Shida JV"), which was established in the PRC. The principal activity of Shida JV is to undertake the operation of Shiqiao-Dajing expressway. The Group's entitlement to voting rights and share in the profit of the jointly controlled entity was in proportion to its ownership interests.

On September 10, 2009, the Group entered into an agreement with Hangzhou Communications Group Co., Ltd ("Hangzhou Communications Group"), a state-owned enterprise, pursuant to which the Group agreed to sell, and Hangzhou Communications Group agreed to purchase, the entire 50% interest of the Group in Shida JV for a consideration of Rmb367,000,000. The disposal was completed in November 2009 and the gain on disposal of a jointly controlled entity of Rmb274,494,000 was recognised in the profit or loss for the year ended December 31, 2009.

The summarised financial information in respect of the Group's interest in the jointly controlled entity which is accounted for using the equity method is set out below:

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| Current assets | — | 36,136 |
| Non-current assets | — | 141,033 |
| Current liabilities | — | (38,509) |
| Non-current liabilities | — | (14,409) |
| Income recognised in profit or loss | **40,106** | 46,703 |
| Expenses recognised in profit or loss | **(18,852)** | (22,957) |
| Other comprehensive income | — | — |

## 26.AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| Non-current assets: | | |
| Unlisted equity securities investments, at cost (Note i) | **1,000** | 1,000 |
| Current assets: | | |
| Listed equity securities investments in the PRC, at fair value (Note ii) | **54,704** | 28,001 |
| | **55,704** | 29,001 |

Notes:

(i) Unlisted equity securities investments represent investments in unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimated is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

(ii) Listed equity investments represent equity securities subscribed through placement by listed issuers. They are measured at fair value. During the year ended December 31, 2009, the gain on change in fair value of the investments of Rmb34,234,000 (2008: loss on change in fair value of Rmb345,081,000) has been recognised in investment revaluation reserve.

During the year ended December 31, 2008, management determined that the decrease in quoted market price of certain listed equity investments was significant or prolonged, accordingly, the impairment loss on such investments of Rmb24,792,000 was reclassified to profit or loss as impairment loss.

During the year ended December 31, 2009, the Group disposed certain listed equity investments and recognised a gain on disposal of Rmb13,632,000 (2008: loss on disposal of Rmb89,680,000).

## 27.TRADE RECEIVABLES

The Group has no credit period granted to its trade customers of toll operation, service area businesses and securities operation. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| Within 3 months | 49,739 | 71,640 |
| 3 months to 1 year | — | 3,408 |
| 1 to 2 years | 218 | 288 |
| Over 2 years | 613 | 663 |
| | 50,570 | 75,999 |

Included in the Group's trade receivable balance aged within 3 months were tolls receivable from the Expressway Fee Settlement Centre of the Highway Administration Bureau of Zhejiang Province and Hangzhou Urban and Rural Construction Committee amounting to Rmb45,140,000 (2008: Rmb71,640,000) which has been settled subsequent to the end of reporting period. The directors consider the credit risk of the balance to be minimal. The Group has not provided for impairment loss on the balances past due as set out above and does not hold any collateral over these balances.

## 28.OTHER RECEIVABLES

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| Consideration receivable* (Note i) | 115,000 | — |
| Entrusted loan receivable from a related party (Note 44(a)) | 120,000 | — |
| Dividend receivable from a jointly controlled entity* | 53,000 | — |
| Prepayments | 54,783 | 62,129 |
| Receivable from minority shareholders* (Note ii) | — | 58,046 |
| Others* | 108,384 | 56,995 |
| | 451,167 | 177,170 |

* The amounts were unsecured, interest-free and repayable on demand.

## 28. OTHER RECEIVABLES *(Continued)*

Notes:

(i) The balance represented the receivable of the unsettled consideration of disposal of Shida JV during the year ended December 31, 2009 (Note 25).

(ii) Included in receivable from minority shareholders at December 31, 2008 was capital contribution into Zheshang Securities paid by the Group on behalf of certain minority shareholders of Rmb58,046,000. These minority shareholders had provided undertakings in writing to the Group to repay the capital contribution by the Group on their behalf by assigning to the Group their rights to receive future dividends from Zheshang Securities until their repayment obligations were discharged in full. Such balance has been fully settled during the year ended December 31, 2009.

## 29. HELD FOR TRADING INVESTMENTS

| Held for trading investments include: | **2009**<br>**Rmb'000** | 2008<br>Rmb'000 |
|---|---|---|
| Listed securities in the PRC, at fair value: | | |
| Equity securities | **293** | 4,596 |
| Open-end equity funds | **6,258** | 4,014 |
| Corporate bonds with fixed interest ranging from 2.15% to 8.35% per annum and maturity date from December 22, 2010 to June 4, 2019 | **511,344** | 238,977 |
| | **517,895** | 247,587 |

## 30. STRUCTURED DEPOSIT

The structured deposit at December 31, 2008 represented a yield enhanced deposit in Standard Chartered Bank (the "Issuer") for a principal of Rmb200,000,000 with a guaranteed interest rate at 4% per annum and a variable interest ranging from 0% to 2% per annum, depending on the settlement price of certain commodities, payable annually. The structured deposit matured on June 1, 2009. The directors consider that the fair value of embedded derivative in relation to the variable rate interest depending on the commodity price was minimal. The directors consider that the fair value of the structured deposit approximate to its carrying value.

## 31.BANK BALANCES HELD ON BEHALF OF CUSTOMERS

From the Group's securities operation, the Group receives and holds money deposited by customers and other institutions. These customers' money is maintained in one or more segregated bank accounts. The Group has recognised the corresponding accounts payable to respective customers and other institutions.

Bank balances held on behalf of customers carry interest at market rates which range from 1.26% to 1.80% (2008: 0.99% to 1.64%) per annum.

Bank balances held on behalf of customers that are denominated in currencies other than the functional currency of the respective group entities are set out below:

| | HKD<br>Rmb'000 | USD<br>Rmb'000 |
|---|---|---|
| **As at December 31, 2009** | **14,288** | **56,227** |
| As at December 31, 2008 | 8,734 | 42,045 |

## 32.BANK BALANCES AND CASH

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| Restricted bank balance (Note) | **942** | 35,000 |
| Time deposits with original maturity over three months | **228,452** | 284,068 |
| Unrestricted bank balances and cash | **4,819,503** | 3,478,945 |
| Time deposits with original maturity of less than three months | **229,500** | 258,000 |
| Cash and cash equivalents | **5,049,003** | 3,736,945 |
| | **5,278,397** | 4,056,013 |

Note: The restricted bank balance is frozen by China Securities Depository and Clearing Corporation Limited Shanghai Branch in connection with the guarantees issued by Zheshang Securities, in which the amounts of Rmb33,000,000 and Rmb1,058,000 (Total frozen amount in 2008: Rmb35,000,000) were released in January and August 2009, respectively (See Note 37 (ii)).

Bank balances carry interest at the market rate of 0.36% (2008: 0.36% to 0.72%) per annum. Time deposits carry interest at fixed rates ranging from 1.35% to 2.25% (2008: 1.35% to 4.14%) per annum.

Bank balances and cash that are denominated in currencies other than the functional currency of the respective group entities are set out below:

| | HKD<br>Rmb'000 | USD<br>Rmb'000 |
|---|---|---|
| **As at December 31, 2009** | **4,666** | **25,423** |
| As at December 31, 2008 | 3,784 | 22,668 |

## 33. ACCOUNTS PAYABLE TO CUSTOMERS ARISING FROM SECURITIES DEALING BUSINESS

The settlement terms of accounts payables arising from the securities dealing business are one day after the trade date. No aged analysis is disclosed as in the opinion of the directors an aged analysis does not give any additional value in view of the nature of the business.

Accounts payable to customers arising from securities dealing business that are denominated in currencies other than the functional currency of the respective group entities are set out below:

| | **HKD** | **USD** |
|---|---|---|
| | **Rmb'000** | **Rmb'000** |
| **As at December 31, 2009** | **14,288** | **56,227** |
| As at December 31, 2008 | 8,734 | 42,045 |

## 34. TRADE PAYABLES

Trade payables mainly represent the construction payables for the improvement projects of toll expressways. The following is an aged analysis of trade payables presented based on the payment due date at the end of the reporting period.

| | **2009** | 2008 |
|---|---|---|
| | **Rmb'000** | Rmb'000 |
| Within 3 months | **410,900** | 216,913 |
| 3 months to 1 year | **77,793** | 169,772 |
| 1 to 2 years | **136,065** | 24,778 |
| 2 to 3 years | **22,011** | 2,336 |
| Over 3 years | **604** | 1,297 |
| | **647,373** | 415,096 |

## 35. OTHER PAYABLES AND ACCRUALS

| | 2009 Rmb'000 | 2008 Rmb'000 |
|---|---|---|
| Other liabilities: | | |
| Accrued payroll and welfare | **341,870** | 295,359 |
| Advance from customers | **62,589** | 67,997 |
| Toll collected on behalf of other toll roads | **36,149** | 34,462 |
| Others | **154,475** | 91,946 |
| | **595,083** | 489,764 |
| Accruals | **42,582** | 47,998 |
| | **637,665** | 537,762 |

## 36. INTEREST-BEARING BANK AND OTHER LOANS

| | 2009 Rmb'000 | 2008 Rmb'000 |
|---|---|---|
| Bank loans, unsecured | **200,000** | 95,000 |
| Other loans, unsecured | **422,384** | 514,764 |
| | **622,384** | 609,764 |
| Carrying amount of bank loans repayable: | | |
| Within one year | **200,000** | 95,000 |
| Carrying amount of other loans repayable: | | |
| Within one year | **278,055** | 285,897 |
| More than one year, but not exceeding two years | **87,016** | 84,402 |
| More than two year, but not exceeding five years | **57,313** | 144,465 |
| | **422,384** | 514,764 |
| | **622,384** | 609,764 |
| Less: Amount due within one year shown under current liabilities | **(478,055)** | (380,897) |
| | **144,329** | 228,867 |

At December 31, 2009, the bank loans included a loan of Rmb200,000,000 (2008: Rmb30,000,000) carrying fixed rate at 5.31% (2008: 6.21%). At December 31, 2008, the bank loans also included a loan of Rmb65,000,000 carrying floating rates based on the China Central Bank benchmark interest rate ranging from 6.21% to 7.20%.

## 36.INTEREST-BEARING BANK AND OTHER LOANS *(Continued)*

The other loans mainly represent loans from the World Bank via municipal governments and carry floating interest rate at London Inter-Bank Offered Rate ("LIBOR") plus 0.17% (2008: LIBOR less 0.05%) ranging from 1.82 % to 4.55% (2008: 2.30% to 5.36%) per annum (both the effective interest rate and contracted interest rate. The other loans are repayable by semi-annual instalments.

The bank and other loans of the Group that are denominated in currencies other than Rmb amounted to Rmb422,384,000 (USD61,859,000) as at December 31, 2009 (2008: Rmb477,364,000 (USD69,845,000)).

## 37.PROVISIONS

| | Litigation on disputes over state bond Rmb'000 (note i) | Financial guarantees to third parties Rmb'000 (note ii) | Litigation on interest claim Rmb'000 (note iii) | Litigation on public deposits and funds Rmb'000 (note iv) | Other litigation Rmb'000 (note v) | Total Rmb'000 |
|---|---|---|---|---|---|---|
| At January 1, 2008 | 111,414 | 52,610 | — | — | — | 164,024 |
| Provision for the year | — | — | 21,683 | — | 12,181 | 33,864 |
| Reversal for the year | (111,414) | (52,610) | — | — | — | (164,024) |
| At December 31, 2008 and January 1, 2009 | — | — | 21,683 | — | 12,181 | 33,864 |
| Provision for the year | — | — | — | 94,860 | 800 | 95,660 |
| Utilisation of provision | — | — | — | (7,047) | — | (7,047) |
| **At December 31, 2009** | **—** | **—** | **21,683** | **87,813** | **12,981** | **122,477** |

Notes:

(i) Fourteen customers of Zheshang Securities previously entered into state bond investment agency agreements with Kinghing Trust Investment Co., Ltd ("Kinghing Investment"), whereby Zheshang Securities kept in custody state bonds with principal and interest at a rate of 2.7% in aggregate of Rmb111.4 million. These state bonds were pledged as security for certain third party repo trading transactions and the funds obtained were misappropriated by Kinghing Investment. Kinghing Investment was unable to return the misappropriated funds in time and as a result, the security over the state bonds was enforced to settle the relevant repo trading transactions.

In the opinion of directors, Kinghing Investment should take full responsibility for breach of the state bond investment agency agreements. Kinghing Investment had ceased its operations. In 2007, these customers filed legal proceedings against Zheshang Securities for the disputes over the state bond investment agency agreements. Considering the developments in the legal proceedings and the risk management applied in the PRC financial industry, full provision of Rmb111.4 million was made in 2007.

In December 2008, Kinghing Investment fully repaid the principal and interest to all 14 customers and the obligation of Zheshang Securities was discharged. The provision for the litigation was reversed and credited to operating cost during the year ended December 31, 2008.

## 37.PROVISIONS *(Continued)*

Notes: *(Continued)*

(ii) Zheshang Securities granted guarantees to corporate customers and individual customers in respect of the state bond investment agency agreements and fund trust agreements entered into between Kinghing Investment and these corporate customers and individual customers. As Kinghing Investment ceased its operations, the directors considered that it was probable that such guarantees would be exercised. As a result, full provision of Rmb34.8 million and Rmb17.8 million for corporate customers and individual customers, respectively, were made in previous years.

In December 2008, Kinghing Investment fully repaid the claims and interest at a rate of 2.7% to these customers and the obligation of Zheshang Securities had been discharged. Accordingly, the provisions for guarantees was reversed and credited to operating cost during the year ended December 31, 2008.

(iii) The Group has received a claim from the customers under the state bond investment agency agreements and fund trust agreements for the additional interest compensation upon the settlement of the principal and interest at a rate of 2.7%. Based on the legal opinion, management considered that it is probable that the claim is ruled against the Group and accordingly, a provision for the interest compensation amounting to Rmb21,683,000 has been recognised in the profit and loss during the year end December 31, 2008. The litigation is in process as at December 31, 2009.

(iv) Prior to the restructuring of Zheshang Securities by the Company, the original person-in-charge of one of the Sales Departments under Zheshang Securities illegally misappropriated customers' deposits and funds, which caused a loss of approximately Rmb90,000,000 to the relevant customers. During the year ended December 31, 2009, clients who incurred losses due to the case have filed civil lawsuit against Zheshang Securities. Zheshang Securities has made during the year ended December 31, 2009 a provision amounting to Rmb94,860,000 for the principal and related interest involved in the lawsuit, of which Rmb7,047,000 has been settled in current year.

(v) Sinobase International Ltd. initiated a lawsuit against Zheshang Securities in November 2008 in respect of a dispute for asset management entrustment contract entered into with Zheshang Securities in September 2005 with a principal and default compensation in aggregate of Rmb12,181,000. Full provision of such claim has been recognised in profit and loss during the year ended December 31, 2008. Taking into account of the current progress of the legal proceedings, an additional provision of Rmb800,000 has been made for such claim.

## 38.LONG-TERM BONDS

| | **2009**<br>**Rmb'000** | 2008<br>Rmb'000 |
|---|---|---|
| Long-term bonds – listed in the PRC | **1,000,000** | 1,000,000 |

The long-term bonds are unsecured, carry interest payable annually at a fixed rate of 4.29% per annum and are repayable in 2013 upon maturity. The fair value of the listed long-term bonds as at December 31, 2009 is Rmb1,000,000,000.

## 39.DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

| | Impairment of available-for-sale investments Rmb'000 | Provisions Rmb'000 | Changes in fair value of held for trading and available-for-sale investments Rmb'000 | Accelerated tax depreciation of property, plant and equipment Rmb'000 | Fair value adjustment of intangible assets Rmb'000 | Others Rmb'000 | Total Rmb'000 |
|---|---|---|---|---|---|---|---|
| At January 1, 2008 | — | (41,006) | 110,560 | 266,691 | 40,591 | 15,169 | 392,005 |
| Credit (charge) to profit or loss | (6,198) | 32,540 | (50,435) | (13,903) | (1,675) | (22,420) | (62,091) |
| Credit to other comprehensive income | — | — | (57,652) | — | | — | (57,652) |
| At December 31, 2008 and January 1, 2009 | (6,198) | (8,466) | 2,473 | 252,788 | 38,916 | (7,251) | 272,262 |
| Charge (credit) to profit or loss | 6,198 | (200) | 5,584 | (14,223) | (2,339) | (10,395) | (15,375) |
| Charge to other comprehensive income | — | — | 5,150 | — | — | — | 5,150 |
| **At December 31, 2009** | **—** | **(8,666)** | **13,207** | **238,565** | **36,577** | **(17,646)** | **262,037** |

## 40.SHARE CAPITAL

| | Number of shares | | Share capital | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009 Rmb'000** | 2008 Rmb'000 |
| Registered, issued and fully paid: | | | | |
| Domestic shares of Rmb1.00 each | **2,909,260,000** | 2,909,260,000 | **2,909,260** | 2,909,260 |
| H Shares of Rmb1.00 each | **1,433,854,500** | 1,433,854,500 | **1,433,855** | 1,433,855 |
| | **4,343,114,500** | 4,343,114,500 | **4,343,115** | 4,343,115 |

The domestic shares are not currently listed on any stock exchange.

The H Shares have been listed on the Stock Exchange since May 15, 1997. The H Shares were admitted to the Official List on May 5, 2000 and their dealings on the London Stock Exchange commenced on the same day.

On February 14, 2002, the United States Securities and Exchange Commission, following the approval by the Board of Directors and the China Securities Regulatory Commission, declared the registration statement in respect of the ADSs evidenced by ADRs representing the deposited H Shares of the Company effective.

All the domestic shares and H Shares rank pari passu with each other as to dividends and voting rights.

## 41.RETIREMENT BENEFITS SCHEMES

The employees of the Group are members of the state-managed retirement benefits scheme operated by the PRC government. To supplement this existing retirement benefits scheme, the Group adopted a corporate annuity scheme during the year in accordance with relevant rules and regulations. The Group is required to contribute a certain percentage of payroll costs to these retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the specified contributions.

No forfeited contributions are available to reduce the contribution payable in future years.

## 42.COMMITMENTS

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| Contracted for but not provided for in the consolidated financial statements: | | |
| – Investments in expressways upgrade services | — | 272,518 |
| – Acquisition of additional interest in Shangsan Co | — | 485,000 |
| | — | 757,518 |
| Authorised but not contracted for: | | |
| – Investments in expressways upgrade services | **50,000** | 730,739 |
| – Purchase of machinery | **128,000** | 130,000 |
| – Renovation of service areas | **30,000** | 10,000 |
| – Purchase of office buildings and its renovation work | **216,000** | 84,300 |
| | **424,000** | 955,039 |

## 43.OPERATING LEASES

### THE GROUP AS LESSEE

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| Minimum lease payments | **11,565** | 7,811 |
| Contingent rental expenses | **5,046** | 1,189 |
| | **16,611** | 9,000 |

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| Within one year | **11,765** | 7,540 |
| In the second to fifth years inclusive | **52,061** | 49,330 |
| Over five years | **49,400** | 56,700 |
| | **113,226** | 113,570 |

Operating lease payments represent rentals payable by the Group for certain service areas along expressways located in Zhejiang and Tianjin. They are negotiated for an average term of ten years and rentals contain both a fixed element and a contingent element linked to sales.

### THE GROUP AS LESSOR

The Group leased their service areas and communication ducts under operating lease arrangements. Leases are negotiated for terms ranging from 1 to 25 years and rentals are fixed annually.

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | 2009<br>Rmb'000 | 2008<br>Rmb'000 |
|---|---|---|
| Within one year | **34,421** | 46,227 |
| In the second to fifth years inclusive | **35,139** | 39,005 |
| After five years | **23,481** | 35,048 |
| | **93,041** | 120,280 |

## 44.RELATED PARTY TRANSACTIONS AND BALANCES

The following is a summary of the related party transactions arising from the Group's daily operating activities:

(a) Pursuant to the board resolutions of the Company on December 17, 2007, the Group signed an entrusted loan contract on December 26, 2007 with Zhejiang Jinji Property Co., Ltd ("Jinji Co"), a subsidiary of the Communications Group, via China Citic Bank. Pursuant to the contract, the Company agreed to provide a one-year loan of Rmb370,000,000 to Jinji Co via the bank at a fixed interest rate of 8.97% per annum. The entrusted loan was guaranteed by the Communications Group and fully repaid in 2008.

Pursuant to the resolutions of the annual general meeting on June 27, 2008 of Zhejiang Expressway Investment Development Co., Ltd. ("Development Co"), a subsidiary of the Company, and the entrusted loan contracts, Development Co. provided short-term entrusted loans during 2008 totalling Rmb100,000,000 to Zhejiang Concord Property Investment Co., Ltd.("Concord Co"), an associate of Development Co., at a fixed interest rate of 12% per annum, via China Everbright Bank Hangzhou Zhaohui Branch. The entrusted loans were fully repaid within 2008.

Pursuant to the resolutions of the shareholders' meeting on September 15, 2009 of Development Co, a subsidiary of the Company, and the entrusted loan contracts, Development Co. provided short-term entrusted loans during 2009 totalling Rmb120,000,000 to Hangzhou Concord Property Investment Co., Ltd.("Hangzhou Concord Co"), a subsidiary of an associate of Development Co., at a fixed interest rate of 12% per annum, via Industrial and Commercial Bank of China.

Net interest income recognised in 2009 on the above transactions with Jinji Co, Concord Co and Hangzhou Concord Co were Nil (2008: Rmb32,010,000), Nil (2008: Rmb4,542,000) and Rmb3,700,000 (2008: Nil), respectively.

(b) Pursuant to the operation management agreement entered into between Development Co and Petroleum Co in respect of the petrol stations in the service areas along the Shanghai-Hangzhou-Ningbo and Shangsan Expressways, Petroleum Co will with their expertise assist Development Co in running their petrol stations along the Shanghai-Hangzhou-Ningbo and Shangsan Expressways. Purchases of petroleum products from Petroleum Co during year ended December 31, 2009 amounted to Rmb922,280,000 (2008: Rmb1,381,404,000).

(c) See Note 28 for details of loan receivables from minority shareholders of a subsidiary.

## 44.RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### TRANSACTIONS AND BALANCES WITH OTHER STATE-CONTROLLED ENTITIES IN THE PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under the Communications Group which is controlled by the PRC government. Apart from the transactions with the Communications Group and parties under the common control of the Communications Group, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

The Group has entered into various transactions, including deposit placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

In addition, on September 10, 2009, the Group entered into an agreement with Hangzhou Communications Group, a state-owned enterprise, pursuant to which the Group agreed to sell, and Hangzhou Communications Group agreed to purchase, the entire 50% interest of the Group in Shida JV for a consideration of Rmb367,000,000. The disposal was completed in November 2009 and the gain on disposal of a jointly controlled entity of Rmb274,494,000 was recognised in the profit or loss for the year ended December 31, 2009.

In respect of the Group's tolled road business, the directors are of the opinion that it is impracticable to ascertain the identity of counterparties and accordingly whether the transactions are with other state-controlled entities in the PRC.

### COMPENSATION OF DIRECTORS, SUPERVISORS, AND KEY MANAGEMENT PERSONNEL

Other than the directors, supervisors and key management personnel disclosed in Notes 14 and 15, the remuneration of other key management personnel during the year was approximately Rmb1,374,000 including retirement benefit scheme contribution of Rmb47,000 (2008: Rmb1,384,000 including retirement benefit scheme contribution of Rmb42,000) which is determined by the performance of the individuals and the market trends.

## 45.PARTICULARS OF SUBSIDIARIES OF THE COMPANY

| Name of subsidiary | Date and place of registration | Registered and paid-in capital | Percentage of equity interest attributable to the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | Rmb | Direct | | Indirect | | |
| | | | **2009** | 2008 | **2009** | 2008 | |
| | | | **%** | % | **%** | % | |
| Zhejiang Yuhang Expressway Co., Ltd (“Yuhang Co”) | Note 1 | 75,223,000 | **51** | 51<br>— | **—**<br>**—** | — | Management of the Yuhang Section of the Shanghai-Hangzhou Expressway |
| Jiaxing Co | Note 2 | 1,859,200,000 | **99.999454** | 99.999454 | **—** | — | Management of the Jiaxing Section of the Shanghai-Hangzhou Expressway |
| Shangsan Co | Note 3 | 2,400,000,000 | **73.625** | 73.625 | **—** | — | Management of the Shangsan Expressway |
| Zhejiang Expressway Investment Development Co.,Ltd (“Development Co”) | Note 4 | 120,000,000 | **51** | 51 | **—** | — | Operation of service areas as well as roadside advertising along the the expressways operated by the Group |
| Zhejiang Expressway Advertising Co., Ltd (“Advertising Co”) | Note 5 | 3,500,000 | **—** | — | ***35.7** | *35.7 | Provision of advertising services |
| Zhejiang Expressway Vehicle Towing and Rescue Service Co., Ltd. (“Service Co”) | Note 6 | 8,000,000 | **—** | — | ***43.35** | *43.35 | Provision of vehicle towing, repair and emergency rescue services |
| Hangzhou Roadtone Advertising Co., Ltd. (“Roadtone Co”) | Note 7 | 3,000,000 | **—** | — | ***26.01** | *26.01 | Provision of advertising services |
| Zheshang Securities | Note 8 | 1,520,000,000 | **—** | — | ****51.88** | **51.88 | Operation of securities business |
| Tianma Futures | Note 9 | 100,000,000 | **—** | — | *****51.88** | ***51.88 | Operation of securities business |

## 45.PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

* These three companies are subsidiaries of Development Co, a non wholly-owned subsidiary of the Company, and, accordingly, are accounted for as subsidiaries by virtue of the Group's control over them.

** The company is a subsidiary of Shangsan Co, a non-wholly-owned subsidiary of the Company, and, accordingly, is accounted for as a subsidiary by virtue of the Group's control over it.

*** The company is a subsidiary of Zheshang Securities, a non-wholly-owned subsidiary of Shangsan Co, and, accordingly, is accounted for as a subsidiary by virtue of the Group's control over it.

Note 1: Yuhang Co was established on June 7, 1994 in the PRC as a joint stock limited company and was subsequently restructured into a limited liability company under its current name on November 28, 1996. The Group is able to control over Yuhang Co because it has the power to appoint five out of nine directors of that company and under the provisions stated in the Articles of Association of that company, the passing of ordinary resolutions at the board meetings required one-half of the directors attending the meetings.

Note 2: Jiaxing Co was established on June 30, 1994 in the PRC as a joint stock limited company and was subsequently restructured into a limited liability company under its current name on November 29, 1996.

Note 3: Shangsan Co was established on January 1, 1998 in the PRC as a limited liability company.

Note 4: Development Co was established on May 28, 2003 in the PRC as a limited liability company. The Group is able to control over Development Co because it has the power to appoint four out of five directors of that company and under the provisions stated in the Articles of Association of that company, the passing of ordinary resolutions at the board meetings required one-half of the directors attending the meetings.

Note 5: Advertising Co was established on June 1, 1998 in the PRC as a limited liability company.

Note 6: Service Co was established on July 31, 2003 in the PRC as a limited liability company.

Note 7: Roadtone Co was established on July 27, 2004 in the PRC as a limited liability company.

Note 8: Zheshang Securities was established on May 9, 2002 in the PRC as a limited liability company. It was previously known as "Kinghing Securities Co., Ltd." before being acquired by Shangsan Co.

Note 9: Tianma Futures was established on September 7, 1995 in the PRC as a limited liability Company.

All of the Company's subsidiaries are operating in the PRC. None of them had in issue any debt securities at the end of the year.

# Corporate Information

## EXECUTIVE DIRECTORS
Chen Jisong (Chairman)
Zhan Xiaozhang (General Manager)
Jiang Wenyao
Zhang Jingzhong

## NON-EXECUTIVE DIRECTORS
Zhang Luyun
Zhang Yang

## INDEPENDENT NON-EXECUTIVE DIRECTORS
Tung Chee Chen
Zhang Junsheng
Zhang Liping

## SUPERVISORS
Ma Kehua
Fang Zhexing
Zheng Qihua
Jiang Shaozhong
Wu Yongmin

## COMPANY SECRETARY
Zhang Jingzhong

## AUTHORIZED REPRESENTATIVES
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Zhang Jingzhong

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China Construction Bank, Zhejiang Branch
Shanghai Pudong Development Bank, Hangzhou Branch

## H SHARE REGISTRAR AND TRANSFER OFFICE

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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 BOND LISTING INFORMATION

The Shanghai Stock Exchange
Symbol: 03 滬杭甬
Code: 120308

## WEBSITE

www.zjec.com.cn

# Location Map of Expressways in Zhejiang Province