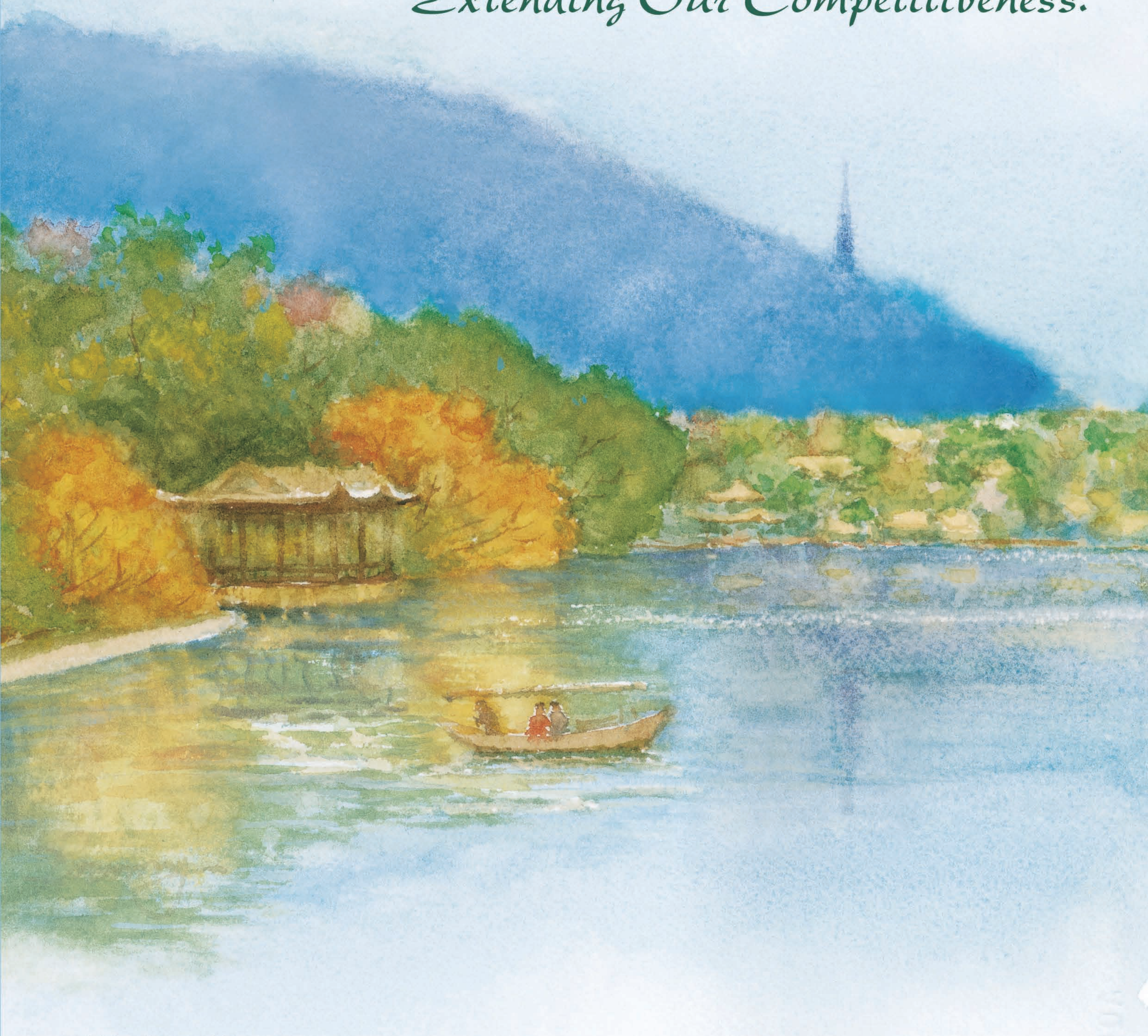
浙江滬杭甬高速公路股份有限公司
ZHEJIANG EXPRESSWAY CO., LTD.

Stock Code : 0576

Enhancing Value through Extending Our Competitiveness.



2007 Annual Report

Enhancing Value through Extending Our Competitiveness.

According to historical texts, back in Qin Dynasty, Xi Hu (the West Lake) was only a bay connected to Qiantang River. After changes in the natural landscape and the dredges and management by various great men over the centuries, Xi Hu has gradually become a glowing pearl of worldwide fame.

To make Xi Hu even more glowing, Hangzhou Municipality has been actively pursuing a comprehensive protection project for Xi Hu in recent years. Based on Southern Song Dynasty's "Ten Views of Xi Hu" and the "New Ten Views of Xi Hu" named in 1985, over 100 sceneries of Xi Hu have been restored and renovated in years of effort. The effort gave rise to the "Third Review on Ten Views of Xi Hu" in 2007, with a view to covering certain newly renovated sceneries. Such new sceneries include the "Sunny and Rainy Lakeside", the revived lakeside scenic area at Xi Hu, the "Nostalgia of North Hill Street", an area with restored historical and cultural sites, and the "Admired Road at Yang Gong Causeway", which embodies the Xi Hu westward expansion project.

After continuous changes and renovation, Xi Hu has been turning out new sceneries. Similarly, Zhejiang Expressway has been moving ahead with time as well, striving for continued progress for its business and adding further "bright spots" atop its existing foundation, with a view to maximizing shareholders' value.

In December 2007, the eight-year widening project of the Shanghai-Hangzhou-Ningbo Expressway was fully completed. The Company's core asset has been widened to become the first eight-lane expressway in the province, thereby unfolding a new chapter for the development of Zhejiang Province's transportation network as well as for the Company's business. Meanwhile, as it sees the important conducive role of toll road-related businesses upon the Company's principal business, the Company has been actively setting up and expanding service areas in recent years. This has brought to the Company substantial profit contributions and has added value to expressway users. In addition, in order to enhance traffic efficiency and service quality, the Company has been introducing innovative technology: A non-stop electronic toll collection system has been introduced to the Company's toll stations to reduce vehicle waiting time at toll stations, thereby further raising service quality.

In the future, the Company will thrive beyond its past achievements and will actively reinforce its operating capabilities in the spirit of "Understand Deficiencies, Stay Alert to Risks and Seek Progress Ahead", so as to extend its competitiveness on the basis of its existing businesses and maximize its value.

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	Zhejiang Expressway Co., Ltd., a joint stock limited company incorporated in the PRC with limited liability on March 1, 1997
Communications Investment 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
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
Jiashao Co	Zhejiang Jiashao Expressway Co., Ltd. (浙江嘉紹高速公路有限公司), a 35% owned associate of the Company
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, 2007 to December 31, 2007
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）, a 50% jointly-controlled entity of the Company
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 Co., Ltd. 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 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 Co., Ltd. Both expressways are situated within Zhejiang Province in the PRC. As at December 31, 2007, total assets of the Company and its subsidiaries amounted to Rmb27,512.8 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.

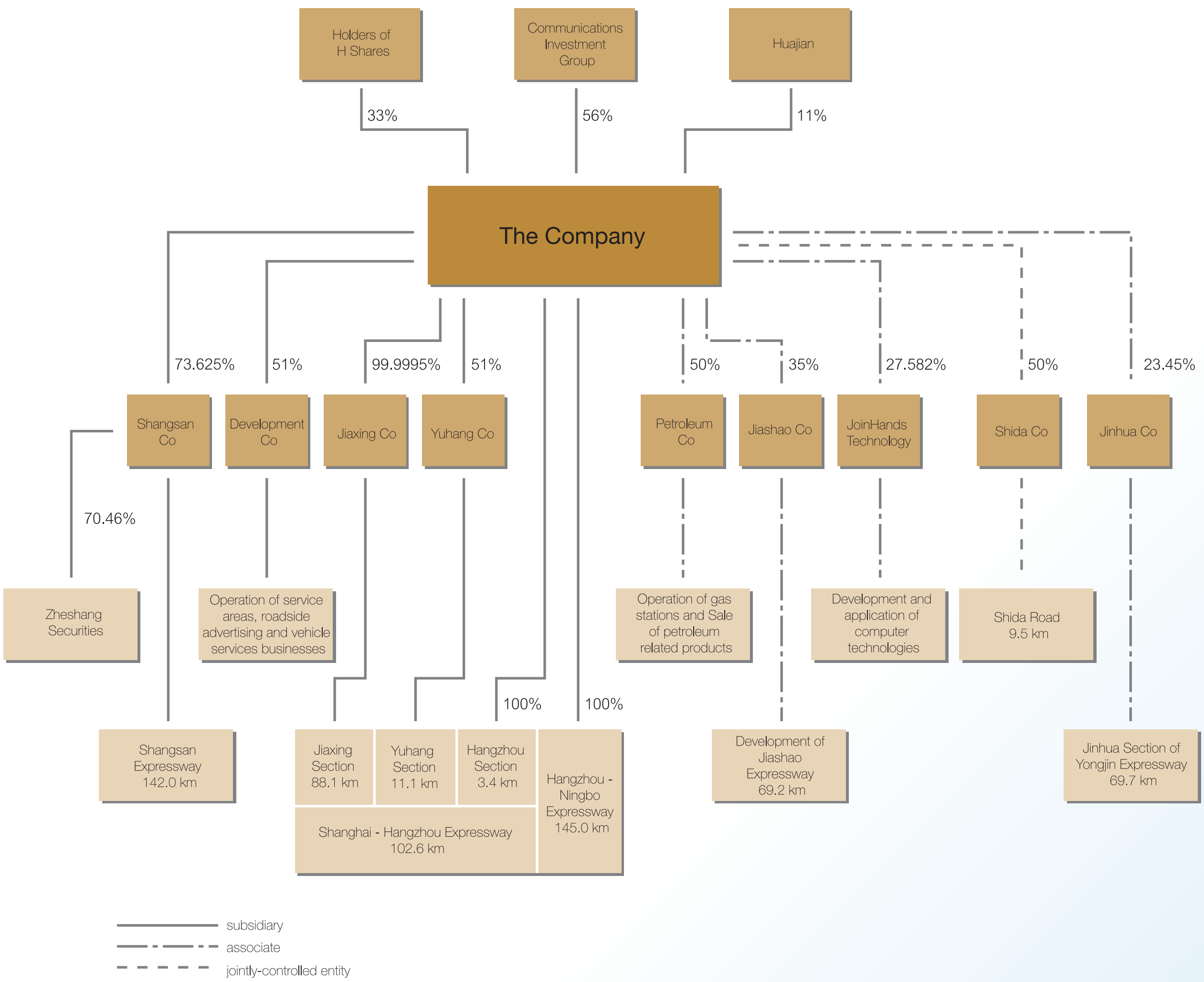
The H Shares of the Company, which represent approximately 33% of the issued share capital of the Company, were listed on the Hong Kong Stock Exchange on May 15, 1997, and the Company subsequently obtained a secondary listing on the London Stock Exchange on May 5, 2000.

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 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.

Building upon its expressway operations and expanded expressway-related business operations, the Company intends to broaden its business scope to incorporate other transport-related infrastructure projects over time to achieve its long-term vision of becoming a leading company investing in and operating infrastructure businesses with an emphasis on expressways in the PRC.

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



Review of Major Corporate Events

1. On March 10, 2007, the Company entered into agreements with Jinhua Municipal Road Management Bureau（金華市公路管理處）and Dongyang Municipal Transport Investment Co., Ltd.（東陽市交通投資有限公司）to acquire an aggregate of 23.45% equity interest in Zhejiang Jinhua Yongjin Expressway Co., Ltd.（浙江金華甬金高速公路有限公司）for a total consideration of Rmb 281.4 million.

2. On April 25, 2007, the Company announced its 2006 annual results in Hong Kong, and thereafter conducted its annual results presentations in Hong Kong and Europe.

3. On May 1, 2007, a pair of Changan service areas newly added to the Shanghai-Hangzhou Expressway by the Company commenced operation officially.

4. On June 6, 2007, Shangsan Co., a subsidiary of the Company, entered into an agreement with Zheshang Securities for injecting a further amount of Rmb 704.6154 million of capital into Zheshang Securities. The transaction was approved by the China Securities Regulatory Commission to take effect on October 8, 2007.

5. On June 11, 2007, the Company convened the 2006 annual general meeting. The meeting approved the distribution of a final dividend of Rmb 0.20 per share.

6. On August 22, 2007, the Company announced its 2007 interim results in Hong Kong, and thereafter conducted its interim results presentations in Hong Kong and Japan.

7. On September 30, 2007, the Company completed trial lanes for electronic toll collection (ETC) at the toll stations in Hangzhou and Xiaoshan, and thereafter ETC trial lanes were introduced at the toll stations in Dayun, Shaoxing and Ningbo for trial operation. This was the first time that a no-stopping toll collection facility became available in Zhejiang Province.

8. On October 30, 2007, the Company convened an extraordinary general meeting. The meeting approved the distribution of an interim dividend of Rmb 0.07 per share, the re-appointment of Deloitte Touche Tohmatsu Certified Public Accountants Hong Kong as the international auditors of the Company, and the re-appointment of Zhejiang Pan China Certified Public Accountants as the PRC auditors of the Company.

9. On December 6, 2007, with the completion of phase 3 of the expressway widening project for the Guzhu to Duantang section, the eight-lane expressway widening project for the Shanghai-Hangzhou-Ningbo Expressway was fully completed as scheduled.

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	21
– Yuhang Section	51%	11.1	6	1	0	1995-1998	21
– Hangzhou Section	100%	3.4	4	2	0	1995	21
Hangzhou-Ningbo Expressway							
– Hangzhou to Hongken section	100%	16.0	4	1	0	1992	20
– Hongken to Duantang section	100%	124.0	8	9	2	1995	20
– Duantang to Dazhujia section	100%	5.0	4	1	0	1996	20
Shangsan Expressway	73.625%	142.0	4	11	3	2000	23

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, 2003 Rmb'000	2004 Rmb'000	2005 Rmb'000	2006 Rmb'000	2007 Rmb'000
Revenue	2,471,805	3,131,993	3,456,385	4,763,780	**7,030,380**
Profit Before Tax	1,587,369	1,899,206	2,264,662	2,742,927	**4,332,533**
Income Tax Expense	(491,346)	(542,749)	(692,366)	(884,036)	**(1,191,638)**
Profit for the year	1,096,023	1,356,457	1,572,296	1,858,891	**3,140,895**
Attributable to:					
Equity holders of the Company	1,008,792	1,225,699	1,431,192	1,652,871	**2,415,965**
Minority interests	87,231	130,758	141,104	206,020	**724,930**
Earning Per Share (EPS)	23.23 cents	28.22 cents	32.95 cents	38.06 cents	**55.63 cents**

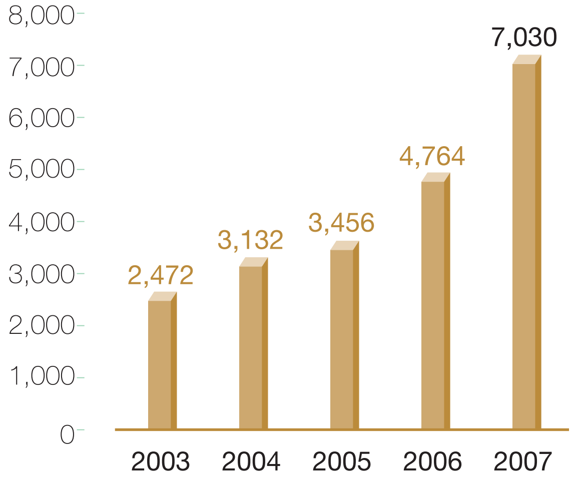
RETURN ON EQUITY (ROE)

	2003	2004	2005	2006	2007
ROE	9.94%	11.43%	12.78%	13.90%	**18.27%**

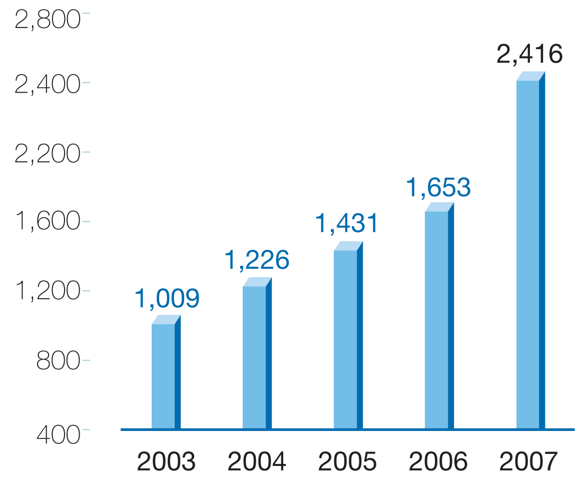
MONTHLY AVERAGE DAILY FULL TRIP TRAFFIC VOLUME

	Shanghai-Hangzhou-Ningbo Expressway			Shangsan Expressway		
	2005	2006	**2007**	2005	2006	**2007**
January	33,727	35,342	**38,233**	19,812	20,079	**19,057**
February	30,931	33,785	**40,239**	20,851	20,174	**23,618**
March	36,093	38,810	**42,536**	20,301	19,897	**22,132**
April	38,102	40,789	**45,657**	21,162	20,554	**22,402**
May	35,751	39,255	**44,462**	20,063	20,215	**22,287**
June	35,368	38,307	**42,938**	19,201	18,619	**20,699**
July	34,088	37,067	**41,989**	18,918	18,691	**20,957**
August	34,121	38,716	**43,112**	19,218	19,379	**21,485**
September	35,968	40,870	**44,646**	20,048	20,542	**22,312**
October	36,117	40,342	**45,037**	19,842	20,717	**22,738**
November	35,440	39,486	**44,238**	19,477	19,428	**21,503**
December	35,738	39,375	**42,840**	19,109	19,136	**20,833**
Average	35,143	38,536	**43,001**	19,824	19,783	**21,652**

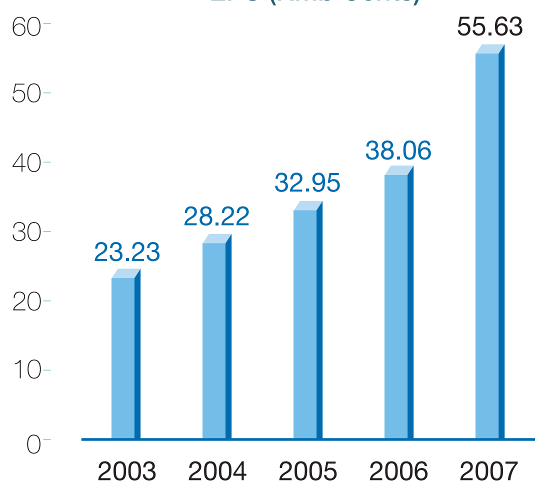
Revenue (Rmb Million)



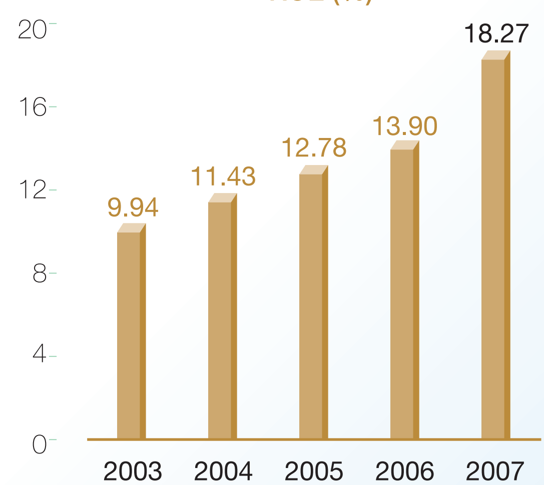
Net profit (Rmb Million)



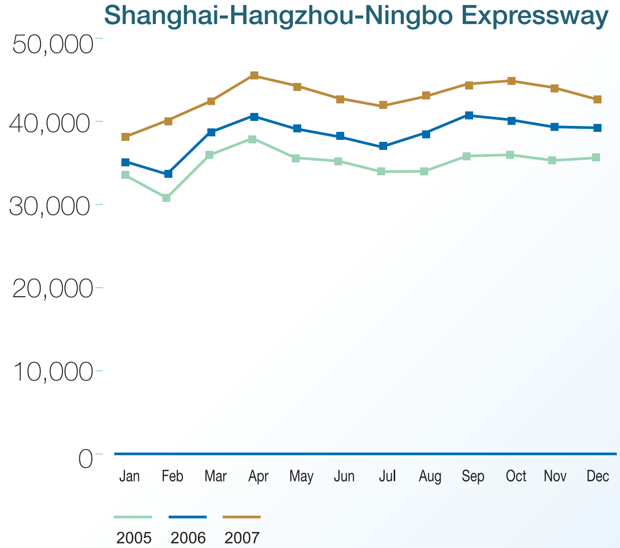
EPS (Rmb Cents)



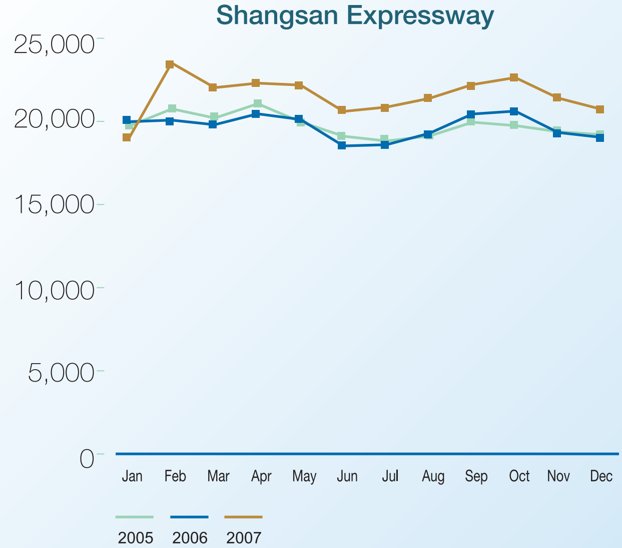
ROE (%)



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



Monthly average daily full-trip traffic volume on Shangsan Expressway




GENG Xiaoping

Chairman's Statement

I believe that at Zhejiang Expressway, it is our corporate value in resisting complacency that has made us continue to evolve, innovate and move ahead. And I have the confidence that the same corporate value will help us "ride the waves" in 2008.

Dear Shareholders,

At Zhejiang Expressway, complacency does not have a place.

I am pleased to report that your Company has achieved another year of solid growth in 2007. For the year ended 31 December 2007, Zhejiang Expressway Company Limited recorded a total revenue of Rmb7,030.4 million, a year-on-year growth of 47.6%, while net profit grew 46.2% to Rmb2,416.0 million. Earnings per share was Rmb55.63 cents (2006: Rmb38.06 cents).

This is the 11th consecutive year of double-digit growth since Zhejiang Expressway was listed. Your Company's performance in 2007 was, indeed, record breaking in many aspects. Our year-on-year net profit growth of 46.2% was in fact 2 times of the CAGR of the past 5 years. Our return on net assets rose from the previous year's 13.9% to a record 18.3%. As shareholders of the Company, you should also be pleased with the fact that Zhejiang Expressway's stock price has climbed 110.1% during 2007, much ahead of the market.

I still remember that during our annual results presentation last year, I was queried by some investors as to whether the Company would be able to sustain its ten-year stellar performance. I was a bit unsure at that time, saying merely that "we will try our best". But alas, we made it again, thanks to the continuation of a favorable operating environment in Zhejiang Province and China as a whole as well as the persistent dedication of our management and staff at Zhejiang Expressway.

Zhejiang Expressway has indeed enjoyed a favorable operating environment all these years. Year 2007 was no exception. Despite the deepening macro-economic control measures, Zhejiang Province continued to enjoy solid economic growth which had thus brought continued traffic volume growth on the province's highways. Even our unexpected acquisition of the securities business in April 2006 has turned out to be a pleasant surprise in 2007, thanks to a booming stock market as well as a strengthened operation of the securities company.

But will we continue to be so fortunate as we move into the future? Indeed, while we continue to break our records year after year, we must not be complacent and must always plan for the "rainy days". Not only because some have already predicted economic growth rate as well as stock market in 2008 might not perform as well as they did in 2007, but more importantly, we just cannot afford to be complacent if we aim to excel for the long term.

As your chairman, I can assure you that at Zhejiang Expressway, complacency does not have a place. Eight years ago, as we already enjoyed strong traffic volume growth on the Shanghai-Hangzhou-Ningbo Expressway, we were not complacent and we decided to launch the eight-year-long expressway widening project with a view to accommodating even more vehicle traffic in the distant future. In 2003, we were not contented with the fact that our business growth relied solely on vehicle traffic growth and we formed the Development Company to operate other toll road-related business operations. Today, we are reaping harvest on our both non-complacent initiatives.

Year 2008 will indeed be a challenging year. The Company will be facing emerging competition due to the openings of a number of neighboring expressways such as the HangPu Expressway and Hangzhou Bay Bridge, which are expected to incur traffic diversions from our expressways. The imminent introduction of the toll-by-weight charging system for trucks in Zhejiang Province will be another uncertainty, though it is expected to bring along more positives than negatives.

But I want to assure you that all of us at Zhejiang Expressway are fully prepared to tackle the forthcoming challenges. Strategies have been devised to tackle competition on the one hand and to increase revenue from our own operations on the other hand. There will be continuous measures to enhance the service standards and travel comfort of our expressways – measures to keep us ahead of our competition and to sustain our growth for the years to come.

In 2007, we have achieved a few first's: the first eight-lane expressway in Zhejiang, and the first operator in Zhejiang to introduce a non-stop electronic toll collection system. I believe that at Zhejiang Expressway, it is our corporate value in resisting complacency that has made us continue to evolve, innovate and move ahead. And I have the confidence that the same corporate value will help us "ride the waves" in 2008.

EPILOG: XI HU AND ZHEJIANG EXPRESSWAY

The scenes at Xi Hu (the West Lake) have been continuously evolving century after century, only to enrich its beauty on top of its natural wonders. Zhejiang Expressway has also been evolving all these years, only to enhance the Company's competitiveness and corporate value on top of its strong foundation. Both Xi Hu and Zhejiang Expressway refuse to be complacent. Both aim to sustain its "beauty".

GENG Xiaoping
Chairman
March 10, 2008

Strengthening Our Core Asset: A New Chapter for the Company's Development as well as for Zhejiang Province's Transportation Network

The Company has been striving to enhance its expressways' travel conditions to improve traffic capacity. The widening project of the Shanghai-Hangzhou-Ningbo Expressway was fully completed in December 2007, thereby enabling the original four-lane expressway to become the first eight-lane expressway in the province. Poised to meet the demand of ever-increasing traffic flows, the expressway has become an important traffic hub within the province.

Reviving the Beauty of the "Sunny and Rainy Lakeside"

Sensing that modern constructions were gradually gobbling up the lakeside scenic area's sceneries, the Hangzhou Municipal Government commenced the building of the new lakeside scenic area in 2003 to enhance its ecological, tourism and leisure developments. The new scenic area restored the memorial monuments for the martyred soldiers in the Battle of Shanghai and Li Bi's dredging, as well as adding sculptures of Marco Polo and "Farewell to Bai Juyi". These have enriched the historical and cultural heritage of the new lakeside scenic area, blending the past and the modern eras together.

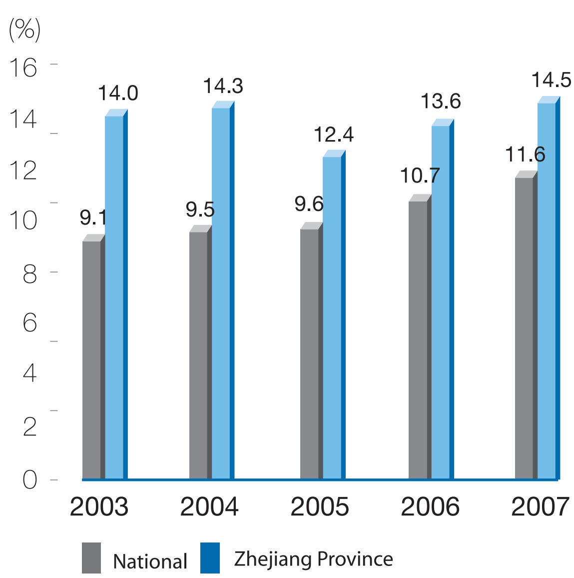
Management Discussion and Analysis

FANG Yunti

BUSINESS REVIEW

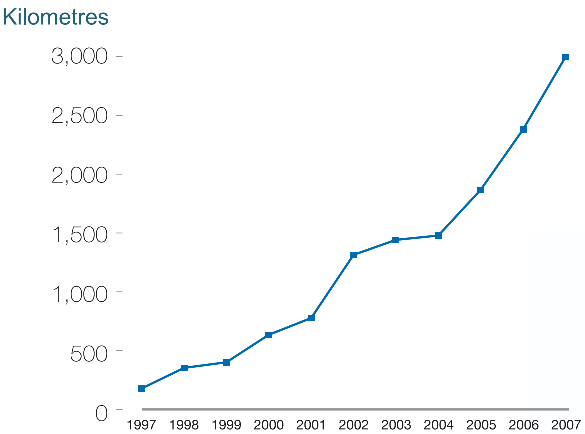
Despite the macro economic control measures, China's economy achieved an 11.6% GDP growth in 2007, thereby continuing for 5 years the trend of high growth that exceeded 10%. Situated in the Yangtze River Delta Region which boasts the strongest economy, Zhejiang Province saw its GDP growth reach 14.5% in 2007, with a per capita GDP close to USD5,000. This demonstrates a solid trend of rapid growth, improving industrial structure and more coordinated development in the region.

GDP Growth Rate



The favorable economic environment in Zhejiang Province facilitated the development and boom of the transportation industry, whereas the rapidly growing per capita GDP led to a substantial increase in car ownership driven by consumption upgrades. All these have helped the Group's expressways to maintain high growth in traffic volume over the past decade.

Mileage of Expressway in Operation in Zhejiang Province



With concerted efforts by the management and staff in 2007, the Group realized a total revenue of Rmb7,030.4 million during the Period, representing an increase of 47.6% year-on-year. While toll income from toll road operations continued to grow during the Period, income from the Group's other businesses had also grown substantially compared to the previous year. Among the total income, Rmb4,024.4 million was attributable to the two expressways owned and operated by the Group, representing 55.2% of total income; an amount of Rmb1,343.2 million was attributable to expressway-related service area operations, gas stations, and advertising business, etc., representing 18.4% of total income. At the same time, thanks to a robust securities stock market, the securities business generated an income of Rmb1,920.5 million to the Group, representing 26.4% of total income.

During the Period, toll income from toll road operations grew by 10.4% over 2006, while income from expressway-related business operations grew by 30.7% over 2006. A breakdown of the Group's income for the Period is set out below:

	2007 Rmb'000	2006 Rmb'000	% Change
Toll income			
Shanghai-Hangzhou-Ningbo Expressway	**3,145,276**	2,810,489	11.9%
Shangsan Expressway	**879,087**	833,823	5.4%
Other incomes			
Service areas	**1,271,125**	968,476	31.3%
Advertising	**70,870**	53,228	33.1%
Maintenance	**1,217**	5,633	-78.4%
Securities business			
Commission	**1,792,155**	173,372*	
Bank interest	**128,370**	20,491*	
Subtotal	**7,288,100**	4,865,512	49.8%
Less: Revenue taxes	**(257,720)**	(101,732)	153.3%
Revenue	**7,030,380**	4,763,780	47.6%

* Not comparable as revenue from Zheshang Securities Co., Ltd. had been consolidated into the Group since July 1, 2006.

TOLL ROAD OPERATIONS

Thanks to Zhejiang Province's continued rapid economic growth, ever-improving transportation planning and substantial increase in car ownership, aggregate toll income from the 248km Shanghai-Hangzhou-Ningbo Expressway and the 142km Shangsan Expressway amounted to Rmb4,024.4 million during the Period, representing an increase of 10.4% year-on-year. Average daily traffic volume on the Shanghai-Hangzhou-Ningbo Expressway during the Period amounted to 43,001 full-trip equivalents, representing a year-on-year growth of 11.6%. Of this traffic volume, the traffic volumes generated on the Shanghai-Hangzhou and the Hangzhou-Ningbo section of the Shanghai-Hangzhou-Ningbo Expressway increased by 13.3% and 10.1% year-on-year, respectively. Average daily traffic volume generated on the Shangsan Expressway during the Period was 21,652 full-trip equivalents, representing a year-on-year growth of 9.5%.

Management Discussion and Analysis

While a number of new expressways such as JinLiWen Expressway were opened to traffic by the end of 2006, they were relatively far from the Shanghai-Hangzhou-Ningbo Expressway and the Shangsan Expressway, thereby exerting negligible diversion impact on the two expressways operated by the Group. Meanwhile, one side (Ningbo to Hangzhou direction) of the third phase of the Shanghai-Hangzhou-Ningbo Expressway's widening project between Guzhu and Duantang was completed and opened to traffic ahead of schedule during the second half of 2007. This has effectively increased the traffic capacity of the section, as well as improving the comfort level of travel.

In addition, the newly added DeSheng toll station at the Hangzhou section of the Shanghai-Hangzhou-Ningbo Expressway was opened on January 1, 2007, thereby attracting significant traffic to the section and bringing additional growth in traffic volume and toll income to the section. Following the full opening to traffic of the HangXinJing Expressway, vehicles travelling from Jiangxi to Shanghai may transit through Yuhang section. The networking effect of expressways facilitated an 18.9% year-on-year growth in traffic volume and a 19.8% year-on-year growth in toll income for the section.

The Shangsan Expressway had earlier experienced diversion impact from the reopening of the parallel National Road 104 after renovation, but the diversion impact had largely diminished in 2007. Accordingly, traffic volume on the Shangsan Expressway was higher during the Period than in the previous year.

In order to enhance toll collection efficiency and facilitate faster and more convenient passage for drivers and passengers going through the toll stations along the expressway, a non-stop toll collection system developed by the Company on its own gradually entered into trial services at certain major toll stations on the Shanghai-Hangzhou-Ningbo Expressway starting from the end of September 2007, with a view to reducing waiting congestion at toll stations during peak periods. The express toll-collection system is also the first non-stop toll collection system introduced to Zhejiang Province's expressways. Besides enhancing toll collection efficiency, the new system has created positive social and economic benefits as well.

During the Period, toll income from the Shanghai-Hangzhou-Ningbo Expressway amounted to Rmb3,145.3 million, representing an 11.9% increase year-on-year, while toll income from the Shangsan Expressway amounted to Rmb879.1 million, representing a 5.4% increase year-on-year.

TOLL ROAD-RELATED BUSINESS OPERATIONS

The Company also operates certain toll road-related ancillary businesses, including gas stations, restaurants and shops in service areas, as well as roadside advertising and vehicle service businesses, along the expressways through its subsidiaries and associated companies. Income from such operations continued to grow faster than the toll income from expressways, owing to the continued high growth in traffic volume on the Group's two expressways and the improvement in service standards and quality during all these years.

To meet the growing demand for services from travelers as a result of continued high growth in traffic volume on the expressways, the Company added a pair of Chang'an service areas along the Shanghai-Hangzhou-Ningbo Expressway's Shanghai-Hangzhou section on May 1, 2007, contributing to a 31.3% year-on-year increase in income from service area operations. Meanwhile, leveraging the Company's favorable brand recognition and successful experience in the nation-wide expressway sector, the Company has successfully obtained the exclusive operation rights of three other service areas within and outside of Zhejiang province for periods ranging from nine to ten years, thereby further expanding its market. During the Period, total income from the aforementioned related business operations amounted to Rmb1,361.4 million, up 30.5% year-on-year.

SECURITIES BUSINESS

Riding on a trading volume surge and an increase in the number of newly opened accounts in the domestic stock market, the securities business realized an operating income of Rmb1,920.5 million during the Period, of which brokerage commission income and bank interest income amounted to Rmb1,792.1 million and Rmb128.4 million, respectively. In addition, the proprietary securities trading business recorded an income of Rmb475.8 million.

In order to expand the securities business so as to strengthen the securities business and its market valuation, Zhejiang Shangsan Expressway Co., Ltd. ("Shangsan Co", a 73.625% owned subsidiary of the Company) made a further capital injection of Rmb704,615,400 into Zheshang Securities Co., Ltd. ("Zheshang Securities", a 70.46% owned subsidiary of Shangsan Co) on June 6, 2007. The transaction was approved by the China Securities Regulatory Commission on October 8, 2007.

Furthermore, Zhejiang Tianma Futures Broker Co., Ltd., which was fully acquired by Zheshang Securities during the second half of 2007, officially obtained the qualifications to carry out financial futures brokerage business and full-scale settlement business on November 27, 2007 and December 18, 2007, respectively, thereby laying a solid foundation to conduct securities and index futures brokerage businesses in the future.

LONG-TERM INVESTMENTS

During the Period, traffic volume on the 9.45km Shida Road (owned and operated by Hangzhou Shida Highway Co., Ltd., a 50% owned jointly-controlled entity) decreased by 3.9% year-on-year, while toll income decreased by 10.2% year-on-year. Net profit for the jointly-controlled entity during the Period was Rmb40.8 million, down 12.6% year-on-year, mainly due to reduced carrying capacity caused by the widening works along the Shida Road and construction works at the nearby HangPu Expressway. However, following the completion of the road's widening works by the end of January 2008, its traffic volume has witnessed a significant rebound.

Thanks to a growing demand for gasoline products caused by the continued high growth in traffic volume, Zhejiang Expressway Petroleum Development Co., Ltd., a 50% owned associate of the Company, saw its income increase of 6.8% year-on-year during the Period, realizing a net profit of Rmb20.7 million.

JoinHands Technology Co., Ltd. (a 27.582% owned associate of the Company) failed to improve the performance of its various businesses during the Period, and incurred a loss of Rmb11.1 million.

Zhejiang Jinhua Yongjin Expressway Co., Ltd. (a 23.45% owned associate of the Company) owns the entire interest in the 69.7km Jinhua section of the Ningbo-Jinhua Expressway. During the second half of 2007, average daily traffic volume on the section was 7,304 full-trip equivalents, while toll income amounted to Rmb73.8 million. Due to heavy financial burden, the associate company incurred a loss of Rmb44.2 million during the second half of 2007. The associate company was only consolidated into the Group after July 1, 2007, and accordingly resulted in a loss of Rmb10.3 million to the Group.

EXPRESSWAY WIDENING PROJECT

The third and final phase of the project to widen the Shanghai-Hangzhou-Ningbo Expressway from four lanes to eight lanes (the "Widening Project") between Guzhu and Duantang on the Hangzhou-Ningbo section, was successfully completed and opened to traffic on December 6, 2007. This signified the full completion of the eight-year Widening Project which involved approximately Rmb4,300 million of investment, with construction works carried out while keeping the expressway open to traffic.

As the first eight-lane expressway in Zhejiang Province, the Shanghai-Hangzhou-Ningbo Expressway has not only substantially increased its carrying capacity, but has also greatly improved its comfort level of travel. The smooth traffic and impressive comfort level of travel will further facilitate traffic volume growth.

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, the Group's profit attributable to equity holders of the Company was approximately Rmb2,416.0 million, representing an increase of 46.2% over 2006, while earning per share for the Group was Rmb55.63 cents.

PROFITABILITY

The compound annual growth rates of earnings per share and return on equity in the last five years were 24.4% and 16.5%, respectively.

	Year ended December 31,				
	2003	2004	2005	2006	**2007**
EPS (Rmb cents)	23.23	28.22	32.95	38.06	**55.63**
YoY Growth rate	13.3%	21.5%	16.8%	15.5%	**46.2%**
ROE	9.9%	11.4%	12.8%	13.9%	**18.3%**
YoY Growth rate	7.6%	15.2%	11.8%	8.7%	**31.4%**

Extending Competitiveness to Related Businesses: Injecting New Growth Momentum for Future Developments

With the toll road-related businesses upon the Company's results, the Company has been actively expanding the operation of its service areas in recent years. After completing the expansion project of Shaoxing service area, the expansion and renovation project of Jiaxing service area was also completed in 2007. Chang'an service area, a pair of newly constructed service area, has commenced operation as well. In addition, the Company has successfully obtained the operation rights of three service areas on HangPu Expressway and JingHu Expressway. Such additions demonstrate fully the Company's successful efforts in extending its competitiveness to related businesses, injecting new growth momentum to the Company's future developments.

Restoring Historical and Cultural Scenes at the "Nostalgia of North Hill Street"

North Hill Street is the home to over half of Hangzhou's famed historical constructions of Chinese and Western styles, making it the site for a nostalgia of past glamour. As the historical constructions on North Hill Street had been much torn down with a messy appearance, the North Hill Street protection project commenced in 2004. The project renovated many historical and cultural sites such as Manao Temple, and carried out a special lighting project for "North Hill Street at night" as well as other greening works, so as to blend natural and cultural scenes into one.

Management Discussion and Analysis

LIQUIDITY AND FINANCIAL RESOURCES

As at December 31, 2007, current assets of the Group was Rmb12,211.7 million in aggregate (December 31, 2006: Rmb4,674.3 million), bank balance and cash accounted for 24.9% (December 31, 2006: 35.7%), while bank balance held on behalf of customers accounted for 59.3% (December 31, 2006: 53.7%) and held-for-trading investments accounted for 5.1% (December 31, 2006: 4.9%). Current ratio (current assets over current liabilities) as at December 31, 2007 was 1.2 (December 31, 2006: 1.1).

	As at December 31,	
	2007 Rmb'000	2006 Rmb'000
Cash and cash equivalent		
Rmb	**2,748,980**	1,493,866
US$ in Rmb equivalent	**21,507**	8,661
HK$ in Rmb equivalent	**3,324**	1,546
Time deposits		
Rmb	**226,972**	131,312
Held-for-trading investments		
Rmb	**621,220**	229,880
Available-for-sale investments		
Rmb	**595,758**	—
Total	**4,217,761**	1,865,265
Rmb	**4,192,930**	1,855,058
US$ in Rmb equivalent	**21,507**	8,661
HK$ in Rmb equivalent	**3,324**	1,546

Held-for-trading investments of the Group as at December 31, 2007 amounted to Rmb621.2 million (December 31, 2006: Rmb229.9 million), 85.9% of which were invested in the stock market, 12.9% of which were invested in corporate bonds while the rest were invested in open-end equity funds.

During the Period, net cash inflow generated from the Group's operating activities amounted to Rmb3,678.5 million, representing an increase of 52.4% over 2006.

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

BORROWINGS AND SOLVENCY

As at December 31, 2007, the total liabilities of the Group were Rmb11,748.5 million, of which 13.8% were borrowings and 61.4% were customer deposits arising from securities dealings.

Total interest-bearing borrowings of the Group as at December 31, 2007 were Rmb1,622.0 million, representing a decrease of 12.1% since the beginning of the year. The borrowings comprised outstanding balances of the World Bank loans, denominated in US dollar, of approximately Rmb564.6 million in Rmb equivalent, government loans of Rmb37.4 million, loans from domestic commercial banks totaling Rmb20.0 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, 82.2% were not repayable within one year.

Maturity Profiles				
	Gross amount Rmb'000	Within 1 year Rmb'000	2-5 years inclusive Rmb'000	Beyond 5 years Rmb'000
Floating rates				
World Bank loan	564,590	230,645	333,945	–
Fixed rates				
Commercial bank loans	20,000	20,000	–	–
Government loans	37,400	37,400	–	–
Corporate bonds	1,000,000	–	–	1,000,000
Total as at December 31, 2007	1,621,990	288,045	333,945	1,000,000
Total as at December 31, 2006	1,845,407	397,141	382,723	1,065,543

As at December 31, 2007, the Group's loan from a domestic commercial bank was a half-year short-term loan, with the interest rate fixed at 6.57% per annum; the interest rate for government loans was fixed at 3.00% 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 0.72%; the floating rate of the Group's Rmb564.6 million World Bank loans, denominated in US dollar, varied from 5.54% to 5.51%.

Total interest expense for the Period amounted to Rmb99.1million, while profit before interest and tax amounted to Rmb4,393.1 million. The interest cover ratio (profit before interest and tax over interest expenses) stood at 44.3 (2006: 27.5).

	2007 Rmb'000	2006 Rmb'000
Profit before tax and interest	**4,393,085**	2,829,399
Interest expenses	**99,100**	102,782
Interest cover ratio	**44.3**	27.5

The asset-liability ratio (total liabilities over total assets) was 42.7% as at December 31, 2007 (December 31, 2006: 31.8%).

CAPITAL STRUCTURE

As at December 31, 2007, the Group had Rmb15,764.3 million total equity, Rmb8,268.7 million fixed-rate liabilities, Rmb564.6 million floating-rate liabilities and Rmb2,915.2 million interest-free liabilities, representing 57.3%, 30.0%, 2.1% and 10.6% of the Group's capital, respectively. The gearing ratio, which was computed by dividing the total liabilities less customer deposits arising from securities dealing by total equity, was 28.8% as at December 31, 2007 (December 31, 2006: 27.8%).

	As at December 31, 2007		As at December 31, 2006	
	Rmb'000	%	Rmb'000	%
Total equity	15,764,314	57.3%	13,352,452	68.2%
Fixed rate liabilities	8,268,661	30.1%	3,689,193	18.8%
Floating rate liabilities	564,590	2.0%	657,807	3.4%
Interest-free liabilites	2,915,239	10.6%	1,870,967	9.6%
Total	27,512,804	100.0%	19,570,419	100.0%
Long-term interest-bearing liabilities	1,333,945	4.8%	1,448,266	7.4%
Gearing ratio 1 (Note)	28.8%		27.8%	
Gearing ratio 2 (Note)	8.5%		10.8%	
Asset-liability ratio	42.7%		31.8%	

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.

CAPITAL EXPENDITURE COMMITMENTS AND UTILIZATION

Total capital expenditures of the Group and of the Company for the Period amounted to Rmb1,270.9 million and Rmb1,027.3 million, respectively, with Rmb136.0 million attributable to the acquisition of Zhejiang Tianma Futures Broker Co., Ltd. and Rmb742.3 million attributable to the widening project.

The capital expenditures committed by the Group and by the Company as at December 31, 2007 were Rmb2,852.8 million and Rmb1,978.1 million, respectively. Amongst the total capital expenditures committed by the Group, Rmb1,081.0 million will be used on the remaining construction work of the widening project, while Rmb1,110.4 million will be used as capital contribution to Zhejiang Jiashao Expressway Co., Ltd. and Rmb54.3 million on service area renovation and/or expansion.

	As at December 31, 2007					
	Group			Company		
	Commitments Rmb'000	Utilization Rmb'000	Balance Rmb'000	Commitments Rmb'000	Utilization Rmb'000	Balance Rmb'000
Expressway Widening Project						
From Dajing to Fengjing	2,532,514	1,774,176	758,338	–	–	–
From Guzhu to Duantang	2,218,118	1,895,357	322,761	2,218,118	1,895,357	322,761
Acquisition of additional 18.4% equity interest in Shangsan Co	485,000	–	485,000	485,000	–	485,000
Renovation of Service Area	54,310	–	54,310	–	–	–
Remaining construction works of the Shangsan Expressway	47,667	5,700	41,967	–	–	–
Purchase of machinery	80,000	–	80,000	60,000	–	60,000
Investment in Jiashao Co	1,145,375	35,000	1,110,375	1,145,375	35,000	1,110,375
Acquisition of 23.45% equity interest in Jinhua Co	281,400	281,400	–	281,400	281,400	–
Total	6,844,384	3,991,633	2,852,751	4,189,893	2,211,757	1,978,136

The Group will finance its above mentioned capital expenditure commitments 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, 2007, the Group did not have any contingent liabilities nor any pledge of assets.

FOREIGN EXCHANGE EXPOSURE

Except for the repayment of a World Bank loan of Rmb564.6 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 any further changes in the foreign exchange environment will not adversely affect the operating results of the Group in the future.

HUMAN RESOURCES

There had been an increase in total number of employees within the Group from 3,873 to 4,307 during the Period, due to the acquisition of Zhejiang Tianma Futures Broker Co., Ltd. by Zheshang Securities Co., Ltd., as well as the addition of a new pair of service areas. Amongst the 4,307 employees, 735 worked in the managerial, administrative and technical positions, while 3,572 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 Rmb27.2 million.

PRINCIPLE RISKS AND UNCERTAINTIES

Toll Business Risks

Competition

Hangpu Expressway, which opened in February 2008, links Shanghai's Pudong to Hangzhou and competes with our Shanghai-Hangzhou-Ningbo Expressway. Hangzhou Bay Bridge, scheduled to open in (May)2008, which links Cixi City to Jiaxing City and provides a direct route between Shanghai and Ningbo, bypassing Hangzhou, may also compete directly with our Shanghai-Hangzhou-Ningbo Expressway and Shangsan Expressway depending upon a variety of factors including the toll that will be charged to use the Hangzhou Bay Bridge. Although the impact of the opening of the Hangzhou Bay Bridge and the Hangpu Expressway on our expressways is unclear, there is no assurance that our traffic volume will remain the same or increase in the future and that our results of operation will not be impacted.

Concession Period Extension

As our widening works for the Shanghai-Hangzhou-Ningbo Expressway are completing, we plan to apply for an extension of the concession period to construct, manage and collect tolls from users of the Shanghai-Hangzhou-Ningbo Expressway. We cannot assure you that we will not encounter any serious delays or difficulties in the process of applying for an extension of the concession period or that the Zhejiang Provincial Government will approve our concession extension application in a timely manner which may adversely affect our business, financial condition and results of operations.

Toll-by-weight policy

We expect the Zhejiang Provincial Government to implement, at the end of 2008, the toll-by-weight policy which sets out tolls rates for trucks based on the truck's weight. Although the impact of this measure on our expressways is uncertain, we cannot assure you that the Zhejiang Provincial Government will approve truck tolls that will not adversely affect our toll income.

Inflation Risk

Although in recent years, the PRC has not experienced significant inflation, there are signs that inflation in the PRC is increasing. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was approximately 4.7% in 2007, 1.5% in 2006, 1.8% in 2005 and 3.9% in 2004. An inflationary environment may negatively affect our business, financial condition and results of operations.

Securities Business Risks

Market Fluctuations

Our securities business is susceptible to market fluctuations 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 and 5 to the Consolidated Financial Statements.

The directors of the Company duly confirms 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.

OUTLOOK

In 2008, with China's economy being characterized by a strengthened enforcement of macro-economic control measures, the GDP growth rate will slow gradually, but steady growth is expected to be maintained. As an economic powerhouse, Zhejiang Province should be able to maintain double-digit GDP growth in 2008 in light of its improved economic operating environment, rational industrial structure adjustments, ever-improving infrastructures and the emerging expressway networking effect. The consumption upgrade driven by the rapid increase in per capita GDP in Zhejiang Province should also continue to accelerate the rapid growth in car ownership. Benefiting from such developments, the Group's two expressways are expected to maintain steady organic growth in traffic volume.

In 2008, the Company will face both opportunities and challenges. The opening of neighboring expressways such as the HangPu Expressway and the Hangzhou Bay Bridge will have a significant traffic diversion impact on the Group's expressways. The Company's management has been striving to devise measures to minimize the anticipated diversion impact. The completion of the Widening Project along the Shanghai-Hangzhou-Ningbo Expressway that had been carried out in the past eight years has expanded the expressway's carrying capacity and improved the comfort level of travel, which should contribute to considerable traffic volume growth on the Shanghai-Hangzhou-Ningbo Expressway and alleviate part of the diversion impact. In line with the Company's long-held development strategy of focusing on core businesses, the Company will carry out greater efforts on project acquisitions and seek to introduce strategic investors with reputable brand names into Zheshang Securities at an appropriate time.

In addition, the non-stop electronic toll collection (ETC) system developed by the Company will officially enter into operation in early March 2008, after completing the trial phase at major toll stations along the Shanghai-Hangzhou-Ningbo Expressway. The efficient non-stop toll collection system, together with the widely used UnionPay bankcards payment system, will allow drivers to pass through toll stations more conveniently, thereby further enhancing toll collection efficiency and service standards. The long-awaited toll-by-weight policy for trucks is now expected to be implemented by the end of 2008. The implementation of the new policy is expected to further reduce incidents of overloaded trucks traveling on expressways, thereby lowering road maintenance costs for the Group in the long run.

As for the rapidly growing toll road-related business operations, in 2008 and beyond, the Group will strive for operation innovations to expand the service area operations. The Group will improve service quality according to the principle of enhanced service attitude, so as to strive for new sources of profit growth. Meanwhile, Zheshang Securities will actively seek new securities business, thereby making good contribution to the Group's results.

With an enhanced comfort level of travel offered by the widened eight-lane expressway, a wide adoption of more convenient and efficient toll collection systems, and the Group management's working spirit of dedicating every effort to the innovation and development of businesses over the past decade, the Group will actively cope with the negative factors presented by a challenging environment in 2008. We will explore new sources of profit growth, and do our best efforts to minimize the negative impacts, so as to continue to reward our shareholders with satisfactory operating results.

Introducing Innovative Technology to Further Enhance Service Quality

"The Company has been actively introducing innovative technology to enhance traffic efficiency and service quality, so as to boost its competitiveness. After becoming the first PRC expressway operator to adopt China UnionPay bankcard payment in 2006, the Company took the lead again last year to be the province's first to introduce a non-stop electronic toll collection system on its expressways. Trial operations are now underway at the major entrances and exits in the municipalities of Jiaxing, Hangzhou, Shaoxing and Ningbo. The system will be extended to all major entrances and exits along the entire Shanghai-Hangzhou-Ningbo Expressway, so as to substantially smoothen traffic and reduce waiting time at toll stations."

The Scenic "Admired Road at Yang Gong Causeway", an Impressive Achievement of Xi Hu's Westward Expansion Project

Hangzhou Municipality commenced the large-scale "Xi Hu Westward Expansion" project in 2003. Besides conserving the scenic area's ecology and reducing environmental pollution, the project also focused on restoring Yang Gong Causeway and the Liliu Bridge on the causeway, such that touring boats may cruise around the lake. As time goes by and the world changes, a scenery disappeared for over three centuries is now revived, with the dream of a full Xi Hu view of "One Lake, Two Pagodas, Three Islands and Three Causeways" fulfilled.

Report on Corporate Governance

The Board of the Company has reviewed the day-to-day governance practices of the Company in the fiscal year of 2007 (hereinafter referred to as the "Period") by reference to the relevant Code provisions contained in the "Code on Corporate Governance Practices" (hereinafter referred to as the "Code") as set out in Appendix 14 of the Hong Kong Listing Rules, and considers that the Company has strictly complied with all Code provisions as set out in the Code.

CORPORATE GOVERNANCE PRACTICES

A. DIRECTORS

The Board has adopted "Cultivation of expertise, to create and share values" as its corporate mission, and the Company's best long-term financial return as its measurement criteria. The board takes an active responsibility for the realization of such a goal. The Board represents the interests of shareholders as a whole, leading the Company to the continued success in its commercial operations. Pursuant to the relevant provisions of the "Company Law" and the mandate of the general meeting, the Board exercises its right of making management decisions in the development strategy, financial control, investment and financing, management structure of the Company. The Board ensures that the management fully discharges their obligations in response to changes to the external factors, and conduct regular and effective supervision on the implementation of policies, decisions and strategies of the management. All the Directors perform prudently, faithfully and diligently for the overall interests of the Company both in terms of their obligations and responsibilities and accept joint and several responsibilities for all shareholders in respect of the management and operation of the Company.

The Board has formulated the "Procedures for Directors to Seek Independent Professional Advice", which allow Directors to seek independent professional advice based on reasonable requests and under appropriate circumstances, at the expense of the Company.

During the Period, when considering matters where a substantial shareholder or a Director has material conflict of interest, the Board has held a Board meeting in respect of such matters, instead of holding by way of circulation of documents or by its committees, and the Board meeting was attended by all the Independent Non-executive Directors of the Company. The Company has made appropriate insurance arrangements to cater for any legal action which may be faced by its Directors.

The role of the Chairman is undertaken by an Executive Director elected by over half of all the Directors, who is responsible for leading the Board in formulating the Company's major plans and policies, a good corporate governance practice and procedure, and leads by example to encourage all the Directors to be fully engaged in the business of the Board, and ensures that the Board discusses all the key and appropriate matters in a timely and constructive manner so that the actions of the Board will comply with the best interests of the Company, and enables the effective operation of the Company. The Chairman is responsible for determining and approving the agenda for each Board meeting, during which process the Chairman will consider any matter proposed by other Directors to be added to the agenda. The Chairman authorizes the Secretary of the Board to ensure timely provision of full information regarding the matters to be discussed by the Board to all the Directors. The Chairman has adopted appropriate measures to maintain effective communication with shareholders, with an aim to ensure that the opinions of shareholders are communicated to all members of the Board. The role of the General Manager of the Company is undertaken by another Executive Director appointed by the Board, whose responsibility is to implement these plans and policies. The terms of reference of the Chairman and the General Manager are clearly stated and set out in a written form. Please refer to the Articles of Association of the Company for details.

Members of the Board have extensive knowledge and experience in the Company's business in respect of development strategies, financial and legal aspects. The fourth session of the Board comprised nine directors. Among them, four are Executive Directors; and the remaining five are Non-executive Directors, of whom three are Independent Non-executive Directors, representing one-third of the number of Board members. The number of Non-executive Directors has exceeded half of the total members of the Board. They can make independent judgments effectively, and their advice to the Board had material influence on the decision making of the Board. During the Period, there were no changes in the composition of the Board. In all of the Company's correspondence (including the Company's website) bearing the names of Directors, the full list of names of the latest Board members is provided, indicating their roles and duties and specifying whether they are Independent Non-executive Directors.

The Company has formulated the plan for an orderly succession by the new session of the Board as well as formal, deliberate and transparent procedures for the appointment of new Directors. All the Directors of the Company are elected by the general meeting with a term of office of three years for each session. Upon expiry of his/her term of office, a director can be reappointed upon re-election.

The Secretary of the Board is responsible for providing relevant information to all Directors to ensure each of the Directors has been able to understand his/her duties as the Company's Director, the way of operation, business activities and development of the Company. Non-executive Directors and Executive Directors have the same status and fiduciary responsibility, and by regularly attending meetings of the Board and committee meetings and actively participating in their activities, have made positive contributions to the Company with their independent, constructive and informed opinions. Every director ensures that he can give sufficient time and attention to the affairs of the Company.

During the Period, the Secretary of the Board has provided all Directors with the agenda of the meeting, together with adequate and appropriate related meeting materials at least three days before any Board meeting, to enable the Directors to make fully informed decisions and discharge his/her duties and obligations as a Director. All directors have made formal and informal communications with the senior management from time to time during the Board meetings and other occasions. Each of the Directors has his/her own independent channel of contacting the senior management by himself/herself to obtain the information he/she requires.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Disclosures on the remuneration of the Directors and Supervisors are made available in the 2007 annual report on page 85. The Company has a regulated procedure for formulating the relevant policies of the remuneration for the Executive Directors and determining the remuneration of the Directors. The remuneration of the members of the fourth session of the Board were fixed by the Nomination and Remuneration Committee, and were approved by general meeting of the shareholders of the Company. The level of remunerations has been sufficient to attract and retain the Directors required for the successful operation of the Company. However, the Company avoided paying excessive remuneration for such purpose. None of the Directors have participated in determining their own remuneration.

C. ACCOUNTABILITY AND AUDITING

During the Period, the Secretary of the Board has provided full explanations and adequate information to all members of the Board to enable the Board to consider the financial and other information submitted for their approval. The Directors are responsible for preparing the accounts for the Period, so that the accounts can truly and fairly reflect the position, results and cash-flow performance of the Company's business during the Period. When preparing the accounts for the Period, the Directors have adopted and implemented appropriate accounting policies, adopted the standards under "Hong Kong Financial Reporting Standards", made prudent and reasonable judgments and estimates, and prepared the accounts on an ongoing concern basis. In the appropriate shareholder correspondence, the Board believes that balanced, clear and easily understandable assessments on the Company's situation and prospects have been made.

The Board authorizes the management to establish and maintain an internal control system, and conducts reviews on all important control procedures such as finance, operation, compliance and risk management from time to time through its Audit Committee so as to protect the Company's assets and shareholders' interests. During the Period, the audit department, under supervision of the Audit Committee, has conducted a series of reviews on the effectiveness of the Group's internal control system. Upon completing the reviews, the audit department submitted written reports to all members of the Audit Committee, and took preventive measures, such as requiring modification by the relevant departments in the form of internal control feedback forms. During the Period, the Company, through the appointment of external auditors, conducted regular audits of the Company's financial reports in accordance with applicable accounting standards, and provided independent and objective opinions and advice in the form of audit reports.

The Board has made standardized arrangements on how to apply the principles of financial reporting and internal control, and how to maintain appropriate relationship with the auditors. The Audit Committee under the Board of the Company has laid down their written terms of reference to comply with the Code. The relevant content has been posted on the Company's website in the section headed "Corporate Governance". During the Period, the initial draft and final version of the minute of each of the meetings of the Audit Committee have been circulated to all members of the committee within a reasonable time after the meetings, and after having obtained comments from the members on the initial drafts, the final versions were kept for records. A complete record of the meetings was maintained by the Secretary of the Board. At present, none of the five members of the Audit Committee were formal partners of the Company's existing external auditors. The Audit Committee has been provided with sufficient resources to perform its duties.

D. DELEGATION BY THE BOARD

The Company has formulated a formal pre-determined schedule in the Articles of Association specifying the matters which specifically require decisions to be made by the Board, in respect of which the management have to report to the Board for approval before making the decisions or entering into commitments on behalf of the Company.

In order to carry out sound corporate governance, the Company has formulated and implemented "Guidelines on Corporate Governance", "Terms of Reference for the Audit Committee", "Terms of Reference for the Nomination and Remuneration Committee", "Terms of Reference for the Connected Transactions Committee" and "Terms of Reference for the Strategy Committee" in compliance with the Listing Rules and other relevant laws and regulations, thereby providing each of the Audit Committee, the Nomination and Remuneration Committee, the Connected Transactions Committee and the Strategy Committee under the Board their specific written terms of reference, specifying the powers and duties of these committees. According to the terms of reference, the Board committees should report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so. During the Period, the Board had not set up any new Board committees.

E. COMMUNICATIONS WITH SHAREHOLDERS

The Board of the Company puts great emphasis on the convening of general meetings and makes every effort to maintain continued communication with shareholders. The Company will send the notice of the general meeting and/or circular to both domestic and overseas shareholders 45 days prior to the holding of the general meeting, specifying the matters to be considered at the meeting and the voting procedure in compliance with the "Listing Rules" and the Articles of Association. During the Period, the Chairman has attended all general meetings, whereby a separate resolution in respect of each separate matter was passed, and has made arrangements for the scrutineer, Deloitte Touche Tohmatsu Certified Public Accountants, to supervise the relevant voting by shareholders. Results of the general meetings were posted on the websites of the Stock Exchange and the Company as soon as practicable after the meetings.

SECURITIES TRANSACTIONS BY DIRECTORS

Pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" under Appendix 10 of the Listing Rules (hereinafter referred to as "Model Code") having taken into account the circumstances specific to the Company, the Company has formulated its own "Rules on Security Dealings", with standards not less exacting than the "Model Code".

Upon specific enquiries to all the Directors, the Directors have confirmed their respective compliance with the relevant standards for securities transactions by directors as set out in the Model Code and the "Rules on Security Dealings" of the Company in the Period.

BOARD

The fourth session of the Board of the Company comprised nine members, including four Executive Directors, namely Mr. Geng Xiaoping (Chairman), Mr. Fang Yunti, Mr. Zhang Jingzhong and Mr. Jiang Wenyao; two Non-executive Directors, namely Ms. Zhang Luyun and Ms. Zhang Yang; and three Independent Non-executive Directors, namely Mr. Tung Chee Chen, Mr. Zhang Junsheng and Mr. Zhang Liping.

The Board of the Company has held six meetings during the Period. The following were attendance rates of all Directors at Board meetings (including appointing other directors to attend):

Member of the Board	Attendance/Total number of meetings
Geng Xiaoping (Chairman)	6/6
Fang Yunti	6/6
Zhang Jingzhong	6/6
Jiang Wenyao	6/6
Zhang Luyun	5/6
Zhang Yang	6/6
Tung Chee Chen	6/6
Zhang Junsheng	5/6
Zhang Liping	6/6

The Board has regularly held meetings during the Period. Ad hoc meetings were held as necessary. The Company has issued letters of enquiry to all the Directors for their comments on the agenda seven days before the issue of notices of Board meetings, so as to ensure that they would have the opportunity to raise additional matters for inclusion in the agenda. The Secretary of the Board issued notice of meeting to all the Directors, Supervisors and participating members at least fourteen days prior to the convening of each regular Board meeting (at least seven days prior to the convening of an ad hoc meeting), so as to allow all the Directors and other participating members to make reasonable arrangements to attend the meeting. The Secretary of the Board has provided the agenda of the meeting and adequate related board papers to all the Directors, Supervisors and participating members at least three days before the convening of each Board meeting, so as to ensure the Directors could make an informed decision on the matters to be discussed. After the completion of the Board meeting, the Company sent the initial draft and final version of the minutes to all the Directors: the initial draft to seek comments from the Directors, and the final version for records. The minutes of the Board and committee meetings contained sufficient detailed records on the matters considered by the Directors at the meetings and the decisions reached, including any concerns raised by the Board or dissenting views expressed by the Directors. The Secretary of the Board has maintained full records of the meetings of the Board and committees, which would be available for inspection by any Director during working hours. All the Directors have had access to the advice and services of the Secretary of the Board, who was available at all times for enquiries in respect of any matters (including the application and execution of the Code), so as to ensure the Board procedures and all the applicable rules and regulations were complied with. The Board and the management made decisions on the matters of the Company within their respective scope of duties in accordance with Articles 92 and 105 in the Articles of Association.

The Company has complied with the requirements under Rules 3.10(1) and (2) of the Listing Rules, and the Board has appointed three Independent Non-executive Directors, with at least one possessing the appropriate professional qualification or with accounting or related financial management expertise.

Pursuant to Rules 3.13 of the listing Rules, the company has specially inquired all three Independent Non-executive Directors and received their respective confirmation of Independence. The Independent Non-executive Directors have confirmed their respective independence pursuant to Rule 3.13 of the Listing Rules during the Period. The Company still considers the Independent Non-executive Directors to be Independent.

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

THE CHAIRMAN AND THE GENERAL MANAGER

The Company's Chairman and General Manager have different roles which are assumed by Mr. Geng Xiaoping and Mr. Fang Yunti respectively.

TERM OF SERVICE OF NON-EXECUTIVE DIRECTORS

Each of the Non-executive Directors of the fourth session of the Board has a term of service for three years, from March 1, 2006 to February 28, 2009.

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 has sufficient resources for performing its duties.

The Nomination and Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. Zhang Liping, Mr. Tung Chee Chen and Mr. Zhang Junsheng. Mr. Zhang Liping was the chairman.

During the Period, the Nomination and Remuneration Committee did not hold any meeting.

REMUNERATION OF THE AUDITORS

During the Period, the Company has paid HK$2,690,300 (equivalent to approximately Rmb2,622,400) to Deloitte Touche Tohmatsu Certified Public Accountants (Hong Kong auditors) in respect of audit services for 2006, and Rmb660,000 to Zhejiang Pan China Certified Public Accountants (PRC auditors) in respect of audit services for 2006, which totaled approximately Rmb3,282,400. The Company has no other material non-audit service expenses.

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 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. The Audit Committee comprised five Non-executive Directors, three of whom were Independent Non-executive directors, namely Mr. Tung Chee Chen, Mr. Zhang Junsheng and Mr. Zhang Liping; and the remaining two were Non-executive Directors, namely Ms. Zhang Luyun and Ms. Zhang Yang. Mr. Tung Chee Chen was the chairman of the Audit Committee.

During the Period, the Audit Committee held two meetings. The following were the attendance rates of the members (including appointing other members to attend):

Member of the Audit Committee	Attendance/Total number of meetings
Tung Chee Chen (Chairman)	2/2
Zhang Junsheng	2/2
Zhang Liping	2/2
Zhang Luyun	2/2
Zhang Yang	2/2

On April 24, 2007, the Audit Committee held the fourth meeting of the third session of the Committee, and considered the audited financial statements for 2006, the proposal of accounting policy and accounting estimate changes, the audit reports for 2006 and the audit plans for 2007. On August 21, 2007, the Audit Committee held the fifth meeting of the third session of the Committee, and considered the interim (unaudited) financial statements for 2007, the interim internal audit report for 2007, and considered and agreed to recommend the Board to send proposals to the annual general meeting by shareholders of the Company for approving the re-appointment of Deloitte Touche Tohmatsu Certified Public Accountants Hong Kong as the Company's Hong Kong auditors and the re-appointment of Zhejiang Pan China Certified Public Accountants as the Company's PRC auditors, and authorizing the Board to fix their remuneration. Apart from the above, the Audit Committee also examined and supervised the work of the audit department by reviewing quarterly audit reports.

During the Period, the Company has complied with the requirements on the composition of audit committees as set out in Rule 3.21 of the Listing Rules.

During the Period, the Directors of the Company 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 on a going concern basis.

RIGHTS OF SHAREHOLDERS

Pursuant to the Articles of Association, the method to convene an extraordinary general meeting of the shareholders is: two or more shareholders (in aggregate holding Shares in the Company with over 10% (inclusive) of the voting rights in the meeting to be held) to request in writing to the Board by signing one or more forms with similar contents, for convening 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.

RELATIONSHIP WITH INVESTORS

During the Period, there were no changes to the Articles of Association of the Company.

The Company's shares comprised Domestic Shares and H Shares. The Domestic Shares were held by Zhejiang Communications Investments Group Co., Ltd. as to 2,432,500,000 Shares and by Huajian Transportation Economic Development Center as to 476,760,000 Shares, representing 56% and 11% of the total shareholding respectively. The H Shares were held by overseas investors, with a total shareholding of 1,433,854,500 Shares, representing 33% of the total shareholding. For details of the substantial shareholders holding more than 5% of the Company's H shares, please refer to the annual report for this year on page 42.

The latest general meeting of the Company was held on October 30, 2007 at 12th Floor, Block A, Dragon Century Plaza, 1 Hangda Road, Hangzhou. Votings at the general meeting took place by way of poll, with all the proposed resolutions duly passed, details of which are as follows: (1) Resolved to approve the payment of an interim dividend of Rmb7.0 cents per share in respect of the six months ended June 30, 2007, with 3,536,872,328 shares voted in the affirmative (representing 100% of the total shares held by the shareholders present at the meeting), and no shares voted in the negative; (2) Resolved to approve the re-appointment of Deloitte Touche Tohmatsu Certified Public Accountants Hong Kong as the Hong Kong auditors of the company, and authorizing the Board of the directors of the company to fix their remuneration, with 3,536,880,328 shares voted in the affirmative (representing 100% of the total shares held by the shareholders present at the meeting), and no shares voted in the negative; and (3) Resolved to approve the re-appointment of Zhejiang Pan China Certified Public Accountants as the PRC auditors of the company, and authorizing the Board of the directors of the company to fix their remuneration, with 3,536,880,328 shares voted in the affirmative (representing 100% of the total shares held by the shareholders present at the meeting), and no shares voted in the negative.

The Company will hold its 2007 AGM on May 15, 2008 to consider the resolutions in respect of the 2007 audited financial statements, 2007 profit distribution plan, and 2007 report of the directors.

As at the end of the Period, the Company's market capitalization held by the public amounted to HK$17,894,504,160.

The Company has always viewed its relationship with investors as a relationship of great importance, especially with regard to the communications with minority shareholders. During the Period, the Company enabled investors to clearly understand the Company's operation and development prospects through timely and accurate announcements, active participation in various investors' forums, regular performance of global roadshows, and hosting company visits for analysts and fund managers. Through such communications, concerns and proposals of investors could be effectively transmitted to the management, thereby enabling the management to create better values for the shareholders.

The Company will be devoted to maintaining such relationship with investors, maintaining the smooth communication channel between the management and investors, and to continue to satisfy demands of investors through incessant efforts.

MANAGEMENT FUNCTIONS

The management functions of the Board and the management are specifically stipulated in Articles 92 and 105 in the Articles of Association. Details of the Articles of Association can be obtained on the Company's website under the section headed "Corporate Governance".

Directors, Supervisors and Senior Management Profiles

DIRECTORS

EXECUTIVE DIRECTORS

Mr. GENG Xiaoping, born in 1948, is the Chairman of the Company. Mr. Geng graduated from the East China College of Political Science and Law in 1984. From 1979 to 1991, he held various positions at the People's Procuratorate of Zhejiang Province including Secretary, Division Chief and Deputy Procurator. In 1991, he was appointed as Deputy Director of the Zhejiang Provincial Expressway Executive Commission where he was responsible for the business operation and administration of the expressway system in Zhejiang Province. Mr. Geng was the General Manager and Chairman of the Company from March 1997 to March 2002. Since December 2001, he has been appointed as a Director and General Manager of the Communications Investment Group, the controlling shareholder of the Company. He resigned from the office of the General Manager of the Company in March 2002. Mr. Geng is also serving as a Senior Advisor to Zheshang Securities.

Mr. FANG Yunti, born in 1950, is a Senior Engineer, an Executive Director and the General Manager of the Company responsible for the overall management of the Company. Mr. Fang graduated from Tsinghua University in 1976 majoring in automotive engineering. From 1983 to 1988, he was the Deputy General Manager of Zhejiang Province Automobile Transport Company. From 1988 to 1990, he was the Chief Engineer at the Provincial Road Transport Company. During the period from 1991 to 1996, he was the Deputy Chief and Chief of the Operating Administrative and Technical Equipment Divisions of the Zhejiang Provincial Expressway Executive Commission, where his responsibilities included operation management and equipment management in relation to the Shanghai-Hangzhou-Ningbo Expressway. Mr. Fang was an Executive Director and the Deputy General Manager of the Company from March 1997 to March 2002. Since March 2002, he has been an Executive Director and the General Manager of the Company. Mr. Fang also holds Chairmanships at Jiaxing Co., Shangsan Co., Development Co., Zheshang Securities, and Directorship at Yuhang Co., each a subsidiary of the Company.

Mr. ZHANG Jingzhong, born in 1963, is a Senior Lawyer, an 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 the 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 a Senior Partner at T&C Law Firm in Hangzhou. Mr. Zhang has been an Executive Director of the Company since April 1997, and was appointed Deputy General Manager in March 2002. Since March 2003, he has been the Company Secretary. Mr. Zhang also serves as Director at Shangsan Co., Development Co., and Vice Chairman at Zheshang Securities.

Mr. JIANG Wenyao, born in 1966, is the 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 and the Planning and Finance 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 General Manager and Company Secretary. Mr. Jiang also serves as a director and General Manager at Development Co., and Director at Yuhang Co., both subsidiaries of the Company.

Directors, Supervisors and Senior Management Profiles

NON-EXECUTIVE DIRECTORS

Ms. ZHANG Luyun, born in 1961, is a Director and Deputy General Manager of the Communications Investment Group. Ms. Zhang graduated from the Department of Chinese Language at Zhejiang University, majoring in Chinese Language. From 1983 to 1997, she served as the Secretary, Deputy Chief and Chief of the Office of Hangzhou City Government. In 1997, she was the Deputy President of Hangzhou Broadcasting and TV College and received the title of the Assistant Researcher in college-teaching. She joined the Communications Investment Group in December 2001 and has been a Director and Deputy General Manager of the Communications Investment Group since then.

Ms. ZHANG Yang, born in 1964, is the Deputy General Manager of Huajian. 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 a Non-executive Director of Shenzhen Expressway Company Limited, Sichuan Expressway Company Limited, Jiangsu Expressway Company Limited and Xiamen Port Development Company Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. TUNG Chee Chen, born in 1942, is the Chairman of Orient Overseas (International) Limited, an Independent Non-executive Director, a member of the Nomination and Remuneration Committee and the 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 an Independent Non-executive Director of the Company since March 1997. In addition, Mr. Tung also holds directorships in the following listed public companies: Chairman (Executive Director) of Orient Overseas (International) Limited, and as an 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, an 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 a Lecturer, an Associate Professor, and an Advising Professor at Zhejiang University. He was also a Professor concurrently at, amongst other universities, Zhongshan University. In 1980, he became the Deputy General Secretary of Zhejiang University. In 1983, Mr. Zhang served as the Deputy General Secretary in the Hangzhou City Government. In 1985, he began to work for the Xinhua News Agency, Hong Kong Branch, and became its Deputy Director since July, 1987. Since September 1998, Mr. Zhang has taken up the position of General Secretary of Zhejiang University. In addition, Mr. Zhang is currently a Special Advisor to the Zhejiang Provincial Government, a Director to the Zhejiang Province Economic Development Consultation Committee, a Chairman of Zhejiang University Development Committee, an Honorary Doctor of Science of the City University of Hong Kong, an Honorary Academician of Asian Knowledge Management Association and an Honorary Professor of Canadian Chartered Institute of Business Administration. Mr. Zhang has been an Independent Non-executive Director of the Company since March 2000.

Mr. ZHANG Liping, born in 1958, is a Managing Director of Credit Suisse and Country Head of China. He is an Independent Non-executive Director, a member of the Audit Committee and the Chairman of the Nomination and Remuneration Committee of the Company. Mr. Zhang graduated from 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. He also attended New York University's MBA program. Mr. Zhang held a number of senior positions at other organizations, including CEO of Imagi International Holdings Limited, Managing Director of Pacific Concord Holdings Limited, Managing Director and Geographic Head - Greater China Region, Dresdner Banking Group, and Director of the Investment Banking Division and China Chief Representative of Merrill Lynch Co. & Inc. Mr. Zhang has been an 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 the Chairman of the Supervisory Committee. Mr. Ma graduated from 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 the Zhejiang Local Railway Company, and in 1993 became the 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 the Deputy General Manager of the Communications Investment Group.

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 an independent non-executive member of the Supervisory Committee of the Company. 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. He was a member of the Sixth Session of the Listing Review Board of the China Securities and Regulatory Commission in 2004. He is currently the Deputy General Manager of Zhejiang Pan-China Certified Public Accountants and a guest professor at Zhejiang Gongshang University and Zhejiang Finance & Economics Institute.

Directors, Supervisors and Senior Management Profiles

Mr. JIANG Shaozhong, born in 1946, is a Professor. Mr. Jiang graduated from the Management Department of Zhejiang University with a master's degree. From 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 a visiting scholar at Stanford University. From 1991 to 1998 he was the Deputy General Economist, the Chief of the Financial Division, the Chief of the Teaching Division and the Deputy Manager of the Management Department of Zhejiang University. He is currently the 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. He was the Deputy Dean of the Department of Law at Hangzhou University, Deputy Dean of the Department of Law at Zhejiang University's Law School, and Director of Zheda Law Firm. Mr. Wu studied at the Christian-Albrechts-Universit ät zu Kiel in 1996 as a visiting scholar. He is currently the Acting Dean of the Department of Law at the Law School of Zhejiang University, a Supervisor for master's degree candidates in Business Law, a member of China Business Law Research Council, Deputy Director of Zhejiang Tax Law Research Council, an Arbitrator of Hangzhou Arbitration Committee, and a Lawyer at Zhejiang Zeda Law Firm.

OTHER SENIOR MANAGEMENT MEMBERS

Mrs. HUANG Qiuxia, born in 1956, an economist, and is the Deputy General Manager of the Company. Mrs. Huang graduated from Hangzhou Non-professional Technology University in 1988 majoring in Human Resource Management. From 1976 to 1991, she was the Deputy Chief of Labor Division of Hangzhou Clock and Watch Factory. She joined the Zhejiang Provincial Expressway Executive Commission in August 1991, and was involved in matters related to labor wages, personnel, external affairs etc. During the period from March 1997 to February 2003, she was the Deputy Manager and Manager of General Department of the Company. Mrs. Huang also serves as Director and Deputy General Manager at Jiaxing Co.

Mr. PAN Jiaxiang, born in 1951, an engineer, and is the Deputy General Manager of the Company. Mr. Pan graduated from Hangzhou University, majoring in economic management. From 1987 to 1992, he was the Deputy Director of the Office of Shangyu City People's Government, and at the same time served as the Director of the Executive Commission of the Shanghai-Hangzhou-Ningbo Expressway (Shangyu Section). From January 1993 to April 1996, he was the Director and the Secretary of Party Committee of Shangyu City Communications Bureau. He has worked in the Company since April 1997, and served as Deputy Manager of Maintenance Department, Assistant of the General Manager and Director and Chief Supervisory Engineer of Widening Project Office, and General Manager of Shangsan Co. Mr. Pan is also serving as a Director at Zheshang Securities.

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, 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Group comprise the operation, maintenance and management of high grade roads, 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. The securities business was included in the Group's principal activities during the year.

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, 2007 is set out in note 7 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended December 31, 2007 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 50 to 110.

An interim dividend of Rmb0.07 per share (approximately HK$0.07) was paid on November 21, 2007. The Directors recommend the payment of a final dividend of Rmb0.24 (approximately HK$0.26) in respect of the year, to shareholders whose names appeared on the register of members of the Company on April 20, 2008. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within the capital and reserves section in the balance sheet. Further details of the dividends are set out in note 13 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,				
Results	**2007 Rmb'000**	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000 (restated)	2003 Rmb'000 (restated)
REVENUE	**7,030,380**	4,763,780	3,456,385	3,131,993	2,471,805
Operating costs	**(3,089,133)**	(2,076,670)	(1,195,428)	(881,355)	(731,451)
Gross profit	**3,941,247**	2,687,110	2,260,957	2,250,638	1,740,354
Other income	**610,435**	203,952	185,947	41,646	127,285
Administrative expenses	**(81,089)**	(71,022)	(62,766)	(74,506)	(114,629)
Other expenses	**(93,259)**	(32,901)	(41,635)	(243,823)	(54,243)
Finance costs	**(60,552)**	(71,991)	(101,343)	(103,457)	(132,801)
Share of (loss) profit of associates	**(4,655)**	4,435	7,217	9,086	12,509
Share of profit of a jointly controlled entity	**20,406**	23,344	16,285	19,622	8,894
PROFIT BEFORE TAX	**4,332,533**	2,742,927	2,264,662	1,899,206	1,587,369
INCOME TAX EXPENSE	**(1,191,638)**	(884,036)	(692,366)	(542,749)	(491,346)
PROFIT FOR THE YEAR	**3,140,895**	1,858,891	1,572,296	1,356,457	1,096,023
Attributable to:					
Equity holders of the Company	**2,415,965**	1,652,871	1,431,192	1,225,699	1,008,792
Minority interests	**724,930**	206,020	141,104	130,758	87,231
EARNINGS PER SHARE	**55.63 cents**	38.06 cents	32.95 cents	28.22 cents	23.23 cents

	As at December 31,				
Assets and liabilities	**2007 Rmb'000**	2006 Rmb'000	2005 Rmb'000	2004 Rmb'000 (restated)	2003 Rmb'000 (restated)
Total assets	**27,512,804**	19,570,419	16,311,656	15,465,649	15,068,687
Total liabilities	**(11,748,490)**	(6,217,967)	(3,947,788)	(3,653,143)	(3,910,291)
Net assets	**15,764,314**	13,352,452	12,363,868	11,812,506	11,158,396

Notes:

1. The consolidated results of the Group for the four years ended December 31, 2006 have been extracted from the Company's 2006 annual report dated April 24, 2007, while those of the year ended December 31, 2007 were prepared based on the consolidated income statement as set out on page 50 of the financial statements.

2. The 2007 earnings per share is based on the profit attributable to equity holders of the Company for the year ended December 31, 2007 of Rmb2,415,965,000 (2006: Rmb1,652,871,000) and the 4,343,114,500 ordinary shares (2006: 4,343,114,500 ordinary shares) in issue during the year.

3. Differences in Financial Statements prepared under PRC GAAP and HKFRSs

	Net profit before minority interests		Net assets as at December 31,	
	2007 Rmb'000	2006 Rmb'000	**2007 Rmb'000**	2006 Rmb'000
As reported in the statutory financial statements of the Group prepared in accordance with PRC GAAP	**3,140,837**	1,835,849	**13,481,924**	12,147,261
HK GAAP adjustments:				
(a) Goodwill	**(5,956)**	—	**(199,769)**	(197,403)
(b) Depreciation provided, net of deferred tax	**7,699**	7,699	**(152,155)**	(159,125)
(c) Difference in the share premium account during establishment	**—**	—	**11,923**	11,923
(d) General provision on accounts receivable and other debts	**(12,880)**	12,880	**—**	11,120
(e) Assessment on impact of appreciation,net of deferred tax	**10,576**	5,288	**80,839**	85,847
(f) Others	**619**	(2,825)	**3,591**	(6,319)
(g) Minority interests	**—**	—	**2,537,961**	1,459,148
As restated in the financial statements	**3,140,895**	1,858,891	**15,764,314**	13,352,452

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, the Company has entered into a continuing connected transaction with its subsidiary and a fellow subsidiary, details of which are set out in note 41 to the financial statements.

PROPERTY, MACHINERY AND PLANT

Details of movements in property, machinery and plant of the Company and the Group during the year are set out in note 15 to the financial statements.

CAPITAL COMMITMENTS

Details of the capital commitments of the Company and the Group as at December 31, 2007 are set out in note 39 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 53 to the financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2007, 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 Rmb1,592,988,000. 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at December 31, 2007, the following shareholders held 5% or more of the issued share capital of the Company according to the register of interests in shares required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (the "SFO"):

Name	Number of shares	Percentage of share capital (domestic shares)
Zhejiang Communications Investment Group Co., Ltd.	2,432,500,000	83.61%
Huajian Transportation Economic Development Center	476,760,000	16.39%

Name	Number of shares	Percentage of share capital (H shares)
Baillie Gifford & Co.	197,113,200 (long position)	13.75%
JPMorgan Chase & Co.	146,140,109 (long position)	10.19%
	844,000 (short position)	0.06%
	138,178,000 (lending pool)	9.64%
Aberdeen Asset Management Plc and Its Associates	126,224,170 (long position)	8.80%
Halbis Capital Management (Hong Kong) limited	89,272,000 (long position)	6.22%
T. Rowe Price Associates, Inc. and Its Affiliates	87,236,000 (long position)	6.08%
The Bank of New York Mellon Corporation	74,145,825 (long position)	5.17%
	28,751,560 (lending pool)	2.01%

Save as disclosed above, as at December 31, 2007, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PUBLIC FLOAT

As at the date of this report, and to the best of the Directors' knowledge, 100% of the H shares of the Company, which accounts for approximately 33% of all issued capital of the Company, are held by the public.

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.

TRUST DEPOSITS

As at December 31, 2007, other than the deposits of Rmb6,025,174 placed in non-bank financial institutions in the PRC, the Group did not have any trust deposits, nor any time 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.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

EXECUTIVE DIRECTORS

Mr. Geng Xiaoping
Mr. Fang Yunti
Mr. Zhang Jingzhong
Mr. Jiang Wenyao

NON-EXECUTIVE DIRECTORS

Ms. Zhang Luyun
Ms. Zhang Yang

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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 35 in the Company's annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and Supervisors ("Supervisors") of the Company has entered into a service agreement with the Company, with effect from March 1, 2006, 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, 2007 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 INTERESTS IN SHARES AND UNDERLYING SHARES

As at December 31, 2007, 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 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 for Securities Transactions by Directors of Listed Issuers were as follows:

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

Name	Position	Contribution of registered capital (Rmb)	Nature of interest	Percentage of the registered capital of associated corporation
Mr. Geng Xiaoping	Chairman	3,600,000	Directly beneficially owned	3.00%
Mr. Fang Yunti	Director/General Manager	2,880,000	Same as above	2.40%
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%

Save as disclosed above, as at December 31, 2007, none of the Directors, Supervisors and chief executives had registered an interest or short position 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), or as be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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.

UNITED KINGDOM TAXATION

The following paragraphs are intended as a general guide only and are based on current legislation and HM Revenue & Customs practice. If you are in any doubt as to your tax position, you should consult an appropriate professional adviser without delay.

Individual holders of H Shares who are resident and domiciled in the United Kingdom (the "UK") will, in general, be liable to UK income tax on dividends received from the Company. Where such an individual receives dividends from the Company without withholding of taxes in the PRC, the amount included as income for the purpose of computing his or her UK tax liability is the gross amount of the dividend and this is taxed at the appropriate marginal rate (currently 10% up to the basic rate unit and 32.5% above the basic rate unit). Where tax is withheld from the dividend, the individual will be entitled to claim credit against UK income tax for any tax withheld from the dividend up to the amount of the UK income tax liability. The Company would assume responsibility for withholding tax at source within the PRC if such a withholding is required. The current UK-Chinese Double Taxation Agreement provides that the maximum withholding tax on dividends from Chinese resident companies paid to UK residents is 10% of the gross dividend.

Instead, individual holders of H Shares who are resident but not domiciled in the UK will only be liable to income tax on a dividend from the Company to the extent that the dividend is remitted to the UK (the "Remittance Basis"). However, draft legislation, which may be subject to change, and which on current published intentions is to take effect from 6 April 2008, provides that individual holders of H Shares who are non-domiciled individuals must elect for the Remittance Basis if they wish for it to apply in any tax year (and will be required to pay an annual charge of £30,000, if they make such an election, and they have been resident but not domiciled in the UK for longer than seven out of the most recent 10 years) unless their unremitted foreign income and gains are less than £1,000 in the tax year

A UK tax resident corporate shareholder will, in general, be liable to UK corporation tax on dividends received from the Company, with double tax relief available for withholding tax suffered. In certain cases (not to be discussed here), a holder of H Shares which is a UK tax resident company may be entitled to relief for "underlying" tax paid by the Company or its subsidiaries.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has throughout the year ended December 31, 2007 complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

AUDIT COMMITTEE

The Company has an Audit Committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises the three independent non-executive directors and the two non-executive directors of the Company.

AUDITORS

Deloitte Touche Tohmatsu Certified Public Accountants Hong Kong will retire and a resolution for their reappointment as international auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
GENG Xiaoping
Chairman

Hangzhou, Zhejiang Province, the PRC
March 10, 2008

Report of the Supervisory Committee

During the financial year 2007 (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.

The Supervisory Committee concluded that during the Period, the Directors, General Manager and other senior management of the Company actively pursued management measures that included strengthening of internal management and introduction of non-stop toll collection services, promoting the continued steady growth of traffic on expressways operated by the Group; leveraging upon its influence and strength among the expressways within the country, the Company's expressway-related businesses continued to expand rapidly, with the successful acquisition of operating rights in three additional service areas in and out of the province, further expanding its service area operations; Zheshang Securities quickly turned from reorganization to rapid business development, and successfully completed a comprehensive governance review conducted by relevant regulatory authorities; while completing the Widening project along the Shanghai-Hangzhou-Ningbo Expressway that had been in the works for the past eight years, with exceptional results achieved in project investment, management and innovations. The improved quality of the expressway and services provided a safer, smoother, more comfortable and expedient traveling environment for travelers, resulting in significant business and social benefits.

The Supervisory Committee has reviewed the financial statements of the Company for 2007 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 2007, and complied with the relevant laws, regulations and the Company's Articles of Association. In 2007, the Company maintained a high dividend payment, providing satisfactory return in cash to the 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 7, 2008

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 50 to 110, which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITIES 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, 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, 2007 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 10, 2008

Consolidated Income Statement

For the year ended December 31, 2007

	NOTES	2007 Rmb'000	2006 Rmb'000
Revenue	7	**7,030,380**	4,763,780
Operating costs		**(3,089,133)**	(2,076,670)
Gross profit		**3,941,247**	2,687,110
Other income	7	**610,435**	203,952
Administrative expenses		**(81,089)**	(71,022)
Other expenses		**(93,259)**	(32,901)
Finance costs	8	**(60,552)**	(71,991)
Share of (loss) profit of associates		**(4,655)**	4,435
Share of profit of a jointly controlled entity		**20,406**	23,344
Profit before tax	9	**4,332,533**	2,742,927
Income tax expense	10	**(1,191,638)**	(884,036)
Profit for the year		**3,140,895**	1,858,891
Attributable to:			
Equity holders of the Company		**2,415,965**	1,652,871
Minority interests		**724,930**	206,020
		3,140,895	1,858,891
Dividends recognised as distribution during the year:			
Interim dividend of Rmb7 cents (2006: Rmb7 cents) per share		**304,018**	304,018
Final dividend of Rmb20 cents (2006: Rmb15 cents) per share		**868,623**	651,467
		1,172,641	955,485
Proposed final dividend of Rmb24 cents (2006: Rmb20 cents) per share	13	**1,042,347**	868,623
EARNINGS PER SHARE - Basic	14	**Rmb55.63 cents**	Rmb38.06 cents

Consolidated Balance Sheet

At December 31, 2007

	NOTES	2007 Rmb'000	2006 Rmb'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**13,906,689**	13,775,621
Prepaid lease payments	16	**393,424**	390,658
Goodwill	17	**86,867**	91,428
Other intangible assets	18	**162,226**	144,727
Interests in associates	20	**479,238**	224,857
Interest in a jointly controlled entity	21	**100,505**	87,982
Available-for-sale investments	22	**1,000**	1,000
Expressway operating rights	23	**171,145**	179,845
		15,301,094	14,896,118
CURRENT ASSETS			
Inventories		**14,558**	12,255
Trade receivables	24	**82,677**	54,451
Other receivables	25	**587,362**	180,514
Prepaid lease payments	16	**19,098**	18,626
Held-for-trading investments	26	**621,220**	229,880
Available-for-sale investments	22	**595,758**	—
Bank balances held on behalf of customers	27	**7,239,389**	2,507,763
Bank balances and cash			
– Restricted bank balances	28	**35,000**	35,000
– Time deposits with original maturity over three months	28	**226,972**	131,312
– Cash and cash equivalents	28	**2,773,811**	1,504,073
		12,195,845	4,673,874
Assets classified as held for sale	20	**15,865**	427
		12,211,710	4,674,301
CURRENT LIABILITIES			
Trade payables	29	**736,890**	369,323
Accounts payable to customers arising from securities dealing business	30	**7,211,261**	2,501,593
Tax liabilities		**994,727**	537,265
Other taxes payable		**37,888**	20,293
Other payables and accruals	31	**556,320**	409,740
Dividends payable		**33,385**	41,595
Interest-bearing bank and other loans	32	**288,045**	397,141
Provisions	33	**164,024**	34,800
		10,022,540	4,311,750
Liabilities associated with assets classified as held for sale		**—**	995
		10,022,540	4,312,745

Consolidated Balance Sheet

At December 31, 2007

	NOTES	2007 Rmb'000	2006 Rmb'000
NET CURRENT ASSETS		**2,189,170**	361,556
TOTAL ASSETS LESS CURRENT LIABILITIES		**17,490,264**	15,257,674
NON-CURRENT LIABILITIES			
Interest-bearing bank and other loans	32	**333,945**	448,266
Long-term bonds	34	**1,000,000**	1,000,000
Deferred tax liabilities	35	**392,005**	456,956
		1,725,950	1,905,222
		15,764,314	13,352,452
CAPITAL AND RESERVES			
Share capital	36	**4,343,115**	4,343,115
Reserves		**8,883,238**	7,550,189
Equity attributable to equity holders of the Company		**13,226,353**	11,893,304
Minority interests		**2,537,961**	1,459,148
		15,764,314	13,352,452

The consolidated financial statements on pages 50 to 110 were approved and authorised for issue by the Board of Directors on March 10, 2008 and are signed on its behalf by:

GENG Xiaoping
DIRECTOR

FANG Yunti
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended December 31, 2007

	Attributable to equity holders of the Company									
	Share capital	Share premium	Statutory reserves (i)	Statutory public welfare fund (ii)	Investment revaluation reserve	Dividend reserve	Retained profits	Total	Minority interests	Total
	Rmb'000	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*	*Rmb'000*
At January 1, 2006	4,343,115	3,645,726	1,068,054	431,448	–	651,467	1,056,108	11,195,918	1,167,950	12,363,868
Profit for the year and total recognised income	–	–	–	–	–	–	1,652,871	1,652,871	206,020	1,858,891
Dividend paid to minority interests	–	–	–	–	–	–	–	–	(109,095)	(109,095)
Interim dividend	–	–	–	–	–	–	(304,018)	(304,018)	–	(304,018)
Dividend paid to shareholders of the Company	–	–	–	–	–	(651,467)	–	(651,467)	–	(651,467)
Proposed final dividend	–	–	–	–	–	868,623	(868,623)	–	–	–
Transfer to reserve	–	–	588,388	(431,448)	–	–	(156,940)	–	–	–
Acquisition of a subsidiary	–	–	–	–	–	–	–	–	194,273	194,273
At December 31, 2006	4,343,115	3,645,726	1,656,442	–	–	868,623	1,379,398	11,893,304	1,459,148	13,352,452
Gain on fair value changes of available-for-sale investments	–	–	–	–	119,633	–	–	119,633	110,976	230,609
Deferred tax liability arising from fair value changes of available-for-sale investments	–	–	–	–	(29,908)	–	–	(29,908)	(27,744)	(57,652)
Net income recognised directly in equity	–	–	–	–	89,725	–	–	89,725	83,232	172,957
Profit for the year	–	–	–	–	–	–	2,415,965	2,415,965	724,930	3,140,895
Total recognised income for the year	–	–	–	–	89,725	–	2,415,965	2,505,690	808,162	3,313,852
Capital contribution	–	–	–	–	–	–	–	–	314,987	314,987
Dividend paid to minority interests	–	–	–	–	–	–	–	–	(44,563)	(44,563)
Interim dividend	–	–	–	–	–	–	(304,018)	(304,018)	–	(304,018)
Dividend paid to shareholders of the Company	–	–	–	–	–	(868,623)	–	(868,623)	–	(868,623)
Proposed final dividend	–	–	–	–	–	1,042,347	(1,042,347)	–	–	–
Transfer to reserves	–	–	337,992	–	–	–	(337,992)	–	–	–
Transfer to retained profits (iii)	–	–	(201,610)	–	–	–	201,610	–	–	–
Disposal of a disposal group classified as held for resale	–	–	–	–	–	–	–	–	227	227
At December 31, 2007	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

Notes:

(i) 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.

(ii) Statutory public welfare fund

In prior years, in accordance with the Company Law of the PRC, the Entities are required to transfer 5% to 10% of the profit after tax, as determined in accordance with the PRC accounting standards and regulations applicable to the Entities, to the statutory public welfare fund, which is non-distributable except in the event of the liquidation of the Entities. The statutory public welfare fund must be used for capital expenditure on staff welfare facilities and these facilities remain property of the Entities.

Under the amended Company Law of the PRC effective January 1, 2006, the Group is no longer required to make appropriation to the statutory public welfare fund. Pursuant to a circular on enterprise financial treatments following the implementation of the amended Company law of the PRC issued by the ministry of Finance (Cai Qi [2007] No. 67), the Group transferred the balance of the statutory public welfare fund at December 31, 2005 amounting to Rmb431,448,000 to the statutory surplus reserve.

According to the relevant regulations in the PRC, the amount of profit available for distribution is the lower of the amount determined under PRC accounting standards and financial regulations and the amount determined under Hong Kong Financial Reporting Standards.

(iii) This transfer resulted from the adoption of the new PRC Accounting Standards (effective January 1, 2007) by the Entities in the preparation of their statutory financial statements for the year ended December 31, 2007. Certain retrospective adjustments are required to be made upon the first-time adoption of these new PRC Accounting Standards. The allocations to the statutory surplus reserve in prior years have been adjusted accordingly.

Consolidated Cash Flow Statement

For the year ended December 31, 2007

	2007 Rmb'000	2006 Rmb'000
Profit before tax	**4,332,533**	2,742,927
Adjustments for:		
Share of loss (profit) of associates	**4,655**	(4,435)
Share of profit of a jointly controlled entity	**(20,406)**	(23,344)
Depreciation of property, plant and equipment	**655,514**	623,439
Amortisation of other intangible assets	**7,289**	3,133
Operating lease rentals in respect of land use rights	**19,303**	18,380
Amortisation of expressway operating rights	**8,700**	8,700
Interest income	**(20,997)**	(26,481)
Finance costs	**60,552**	71,991
Dividend income	**—**	(100)
Gain on fair value changes on held-for-trading investments	**(475,828)**	(72,302)
Net exchange gain	**(40,302)**	(22,299)
Loss on disposal/retirement of property, plant and equipment	**56,777**	4,211
Profit on disposal of a disposal group classified as held for sale	**(1,491)**	—
Write-down of goodwill	**5,956**	—
Operating cash flows before movements in working capital	**4,592,255**	3,323,820
Increase in inventories	**(2,303)**	(5,809)
Increase in trade receivables	**(27,431)**	(32,837)
Increase (decrease) in other receivables	**(36,848)**	16,637
Decrease (increase) in held-for-trading investments	**90,040**	(99,532)
Increase in available-for-sale investments	**(365,149)**	—
Increase in bank balances held on behalf of customers	**(4,051,377)**	(255,036)
Increase in amounts due from associates	**—**	(5,304)
Increase (decrease) in trade payables	**97,011**	(32,083)
Increase (decrease) in other taxes payable	**17,133**	(12,843)
Increase in other payables and accruals and provisions	**273,208**	63,015
(Decrease) increase in amount due to a jointly controlled entity	**(5,841)**	546
Increase in accounts payable to customers arising from securities dealing business	**4,063,508**	253,504
Cash generated from operations	**4,644,206**	3,214,078
Interest paid	**(104,338)**	(88,301)
Income taxes paid	**(861,349)**	(712,219)
NET CASH FROM OPERATING ACTIVITIES	**3,678,519**	2,413,558

Consolidated Cash Flow Statement

For the year ended December 31, 2007

	NOTES	2007 Rmb'000	2006 Rmb'000
INVESTING ACTIVITIES			
Interest received		**20,997**	26,481
Purchases of property, plant and equipment		**(538,944)**	(686,210)
Prepaid lease payments for land use rights		**(22,541)**	—
Purchases of intangible assets		**(4,180)**	—
Acquisition of a subsidiary	37	**(52,213)**	(213,151)
Advances to third parties		**—**	(131,100)
Investment in an associate		**(281,400)**	(525)
Dividends received from an associate		**6,500**	6,000
Repayment from an associate		**—**	116,000
(Loan to) repayment from a related party		**(370,000)**	260,000
Dividends received from a jointly controlled entity		**13,724**	14,723
Dividends received from available-for-sale investments		**—**	100
Proceeds on disposal of property, plant and equipment		**7,329**	1,678
Increase in time deposits		**(95,660)**	(25,680)
Proceeds on disposal of held-for-trading investments		**—**	624,921
Purchases of held-for-trading investments		**—**	(7,840)
Proceeds on disposal of an associate		**—**	5,000
Proceeds on disposal of a disposal group classified as held for resale		**1,150**	—
NET CASH USED IN INVESTING ACTIVITIES		**(1,315,238)**	(9,603)
FINANCING ACTIVITIES			
Dividends paid		**(1,170,803)**	(955,485)
Dividends paid to minority interests		**(52,773)**	(100,879)
Capital contribution from minority interests		**314,987**	—
New bank and other loans raised		**820,000**	800,000
Repayment of bank and other loans		**(1,003,207)**	(1,367,031)
NET CASH USED IN FINANCING ACTIVITIES		**(1,091,796)**	(1,623,395)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,271,485**	780,560
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,504,073**	723,513
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(1,747)**	—
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,773,811**	1,504,073
REPRESENTED BY			
Unrestricted bank balances and cash	28	**2,738,811**	1,275,690
Time deposits with original maturity of less than three months when acquired	28	**35,000**	228,383
		2,773,811	1,504,073

1. CORPORATE INFORMATION

Zhejiang Expressway Co. Ltd. (the "Company") was established 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 People's Republic of China (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 Investment 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 annual report.

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

The Group is involved in the following principal activities:

(a) the design, construction, 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, for the first time, the following new standard, amendment and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial year beginning January 1, 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[3]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interation[3]

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

2 Effective for annual periods beginning on or after March 1, 2007

3 Effective for annual periods beginning on or after January 1, 2008

4 Effective for annual periods beginning on or after July 1, 2008

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

The directors of the Company anticipate that the application of these standards or interpretations other than HK(IFRIC)-Int 12 will have no material impact on the results and the financial position of the Group. The application of HKFRS 8 is anticipated to affect the presentation of segment information of the Group only. HK(IFRIC)-Int 12 gives guidance on the accounting by operators for public-to-private service concession arrangements and sets out the general principles on recognising and measuring the obligations and related rights in service concession arrangements. For arrangements falling within its scope, depending on the terms of the arrangement, the infrastructure assets will, instead of being recognised as property, plant and equipment, be recognised as either (i) a financial asset; (ii) an intangible asset; or (iii) both a financial asset and an intangible asset. The directors of the Company are in the process of assessing the impact of the application of HK(IFRIC)-Int 12 on the Group.

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 income statement from the effective date of acquisition or up to the effective date of disposals, 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 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 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 or a jointly controlled 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.

Previously capitalised goodwill arising on acquisitions of net assets and operations of another entity or a jointly controlled entity 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 balance sheet.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

GOODWILL (continued)

If the potential benefit of the acquiree's income tax loss carry-forwards or other deferred tax assets did not satisfy the criteria for separate recognition when a business combination is initially accounted for but is subsequently realised, the Group recognises the benefit as income and (a) reduces the carrying amount of goodwill to the amount that would have been recognised if the deferred tax assets had been recognised as an identifiable asset from the acquisition date; and (b) recognises the reduction in the carrying amount of the goodwill as an expense. However, this procedure shall not result in the creation of an excess of the Group's interest in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities over the cost of the business combination, nor shall it increase the amount of any gain previously recognised in this manner.

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 the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent 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.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet 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.

Investments in associates cease to be accounted for using the equity method when they are classified as held for sale.

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.

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. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet 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.

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.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets'(disposal groups') previous carrying amount and fair value less costs to sell.

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 and become receivable.

Sales of goods are 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

REVENUE RECOGNITION (continued)

Underwriting, sub-underwriting, placing and sub-placing commission income are recognised in accordance with the terms of the underlying agreements or deal mandates when relevant significant acts have been completed.

Advisory and other fee income is recognised when the relevant transactions have been arranged 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.

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

EXPRESSWAY OPERATING RIGHTS

Expressway operating rights represent the rights to operate the expressways and are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is provided on a straight-line basis over the term of the expressway operating rights granted to the Group.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (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%
Toll stations and ancillary facilities	30 years	3.2%
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%

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation of expressways and bridges is calculated to write off their costs over their estimated useful lives in the remaining expressway concessionary period ranging from 22 to 26 years using the straight-line method.

Construction in progress represents costs incurred in the construction of expressways and bridges, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on borrowed funds during the period of construction, installation and testing. 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 the consolidated income statement in the year in which the item is dereognised.

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 the consolidated income statement 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

Rentals payable under operating leases are charged to profit or loss 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

PREPAID LEASE PAYMENTS

Payments for obtaining land use rights are considered prepaid lease payments under operating leases and are amortised over the lease term using the straight-line method.

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 its 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 each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet 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, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when 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 which are defined contribution schemes 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 income statement 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 balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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 is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

INTANGIBLE ASSETS

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).

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 each balance sheet date, 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. 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.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the consolidated balance sheet 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 and 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 held for trading 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

Financial assets (continued)

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 on points 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.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and bank balances) 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 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 derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets held for trading are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

Financial assets (continued)

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.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

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 are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those held for trading, are assessed for indicators of impairment at each balance sheet date. 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 impacted.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

Financial assets (continued)

Impairment of financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other 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 or other 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 equity. 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.

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. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

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, other payables, amounts due to jointly controlled entities and ultimate holding company, dividend payable, interest-bearing bank and other loans, and long-term bonds are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

FINANCIAL INSTRUMENTS (continued)

Financial liabilities and equity (continued)

Equity instruments

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue.

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 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.

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 directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key sources of estimation uncertainty that have the most significant effect on the amounts recognised in the consolidated financial statements in the next financial year are disclosed below.

ESTIMATED IMPAIRMENT OF LOANS AND RECEIVABLES

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows to determine the impairment loss. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

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, 2007, the carrying amount of goodwill was Rmb86,867,000. Details of the recoverable amount calculation are disclosed in Note 19.

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, 2007, the carrying amounts of intangible assets with indefinite useful lives were Rmb66,563,000. Details of the recoverable amount calculation are disclosed in Note 19.

PROVISION AGAINST LITIGATION

Measuring the provision against litigation requires an estimation of the expenditure required to settle the obligation arising form the litigation. 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. As at December 31, 2007, the provision against litigation amounted to Rmb111,414,000. Details of the provision are disclosed in Note 33(iii).

5. FINANCIAL INSTRUMENTS

(A) CATEGORIES OF FINANCIAL INSTRUMENTS

	2007 Rmb'000	2006 Rmb'000
Financial assets		
Held-for-trading investments	**621,220**	229,880
Loans and receivables (including cash and cash equivalents)	**10,895,690**	4,396,094
Available-for-sale investments	**596,758**	1,000
Financial liabilities		
Amortised cost	**10,062,673**	4,928,267
Financial guarantee contracts	**52,610**	34,800

(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, amounts due to jointly controlled entities and ultimate holding company, dividend 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 and 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 time deposits, bank loans and long-term bonds (see Notes 28, 32 and 34 for details).

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and other loans (see Notes 27, 28 and 32 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 for 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 other loans, at the balance sheet date. For variable-rate bank balances and other loans, the analysis is prepared assuming the balances outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would increase/decrease by Rmb31,528,000 (2006: increase/decrease by Rmb10,378,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances.

(ii) Currency risk

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

	Liabilities		Assets	
	2007	2006	**2007**	2006
	Rmb'000	Rmb'000	**Rmb'000**	Rmb'000
HKD	**10,331**	—	**13,655**	6,426
USD	**635,474**	671,862	**92,392**	22,716

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.

Sensitivity analysis

This sensitivity analysis details the Group's sensitivity to a 5% increase and decrease in Rmb against HKD and USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. If Rmb had strengthened/weakened 5% against HKD and USD, the Group's profit for the year ended December 31, 2007 would have increased/decreased by Rmb18,085,000 (2006: Rmb21,538,000).

5. FINANCIAL INSTRUMENTS (continued)

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

Market risk (continued)

(iii) Price risk

The Group is exposed to equity and debt security price risk in relation 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 reporting date.

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

- profit for the year ended 31 December 2007 increase/decrease by Rmb20,811,000 (2006: increase/decrease by Rmb7,701,000) as a result of the changes in fair value of held-for-trading investments; and
- investment valuation reserve would increase/decrease by Rmb19,958,000 (2006: increase/decrease by Rmb nil) for the Group as a result of the changes in fair value of available-for-sale listed investments.

Credit risk

As at December 31, 2007, 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 and financial guarantees issued by the Group arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date 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.

5. FINANCIAL INSTRUMENTS (continued)

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

Credit risk *(continued)*

Other than the concentration of credit risk on certain deposits and other debtors amounting to Rmb131.1 million as disclosed in Note 25, the Group does not have any other significant concentration of credit risk. The Group's concentration of credit risk by geographical locations is mainly in the PRC.

Liquidity risk

Most of the bank balances and cash at December 31, 2007 were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined 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 financial liabilities. For non-derivative financial liabilities, 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.

5. FINANCIAL INSTRUMENTS (continued)

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

Liquidity risk (continued)

Liquidity and interest risk tables

	Weighted average effective interest rate %	Less than 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 31/12/2007 Rmb'000
2007							
Non-derivative financial liabilities							
Trade payables	–	736,890	–	–	–	736,890	736,890
Accounts payable to customers arising from securities dealing business	–	7,211,261	–	–	–	7,211,261	7,211,261
Other payables and accruals	–	492,532	–	–	–	492,532	492,532
Bank and other loans							
– fixed rate	6.57	21,314	–	–	–	21,314	20,000
– variable rate	5.10	299,152	107,740	285,039	–	691,931	601,990
Long-term bonds	4.29	42,900	42,900	128,700	1,000,000	1,214,500	1,000,000
		8,804,049	150,640	413,739	1,000,000	10,368,428	10,062,673

	Weighted average effective interest rate %	Less than 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 31/12/2006 Rmb'000
2006							
Non-derivative financial liabilities							
Trade payables	–	369,323	–	–	–	369,323	369,323
Accounts payable to customers arising from securities dealing business	–	2,501,593	–	–	–	2,501,593	2,501,593
Other payables and accruals	–	211,944	–	–	–	211,944	211,944
Bank and other loans							
– fixed rate	5.32	131,646	–	–	–	131,646	125,000
– variable rate	4.55	327,758	105,415	325,021	97,114	855,308	720,407
Long-term bonds	4.29	42,900	42,900	128,700	1,042,900	1,257,400	1,000,000
		3,585,164	148,315	453,721	1,140,014	5,327,214	4,928,267

5. FINANCIAL INSTRUMENTS (continued)

(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 and determined with reference to quoted market bid prices and ask prices respectively; 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 or 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.

(D) CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able 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 32 and 34, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

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.

6. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting practice, the Group uses business segments as its primary segment reporting format. During the year, the entire turnover and profit contribution from operating activities of the Group were derived from the PRC. Accordingly, no further geographical segment information is presented.

BUSINESS SEGMENTS

The Group's operating businesses are structured and managed separately according to the nature of services provided, with each segment representing a strategic business unit that serves different markets:

— Toll operation represents the design, construction, operation and management of high grade roads and the collection of the expressway tolls.

— Service area businesses mainly represent the sale of food, restaurant operation, automobile servicing as well as the operation of petrol stations.

— Advertising business represents the design and rental of advertising billboards along the expressways.

— Road maintenance represents the maintenance of expressways and roads, including the cleaning of the road surface, minor repairs to the lanes, the cleaning of the gutters and sewers, grass mowing, afforestation and maintenance service provided to third parties in respect of buildings, equipment and facilities.

— Securities operation represents securities broking and proprietary trading.

Segment information about these businesses is presented below.

6. SEGMENT INFORMATION (continued)

BUSINESS SEGMENTS (continued)

	Toll operation		Service area businesses		Advertising business		Road maintenance		Securities operation		Others		Consolidated	
	2007 Rmb'000	2006 Rmb'000	2007 Rmb'000	2006 Rmb'000	2007 Rmb'000	2006 Rmb'000	2007 Rmb'000	2006 Rmb'000	2007 Rmb'000	2006 Rmb'000	2007 Rmb'000	2006 Rmb'000	2007 Rmb'000	2006 Rmb'000
REVENUE														
Revenue, net of revenue taxes	3,897,819	3,562,289	1,261,526	962,418	64,891	50,239	1,217	5,464	1,804,927	183,370	–	–	7,030,380	4,763,780
RESULT														
Segment results	2,761,125	2,533,798	82,767	66,178	14,507	11,166	1,217	5,464	1,517,718	170,533	–	–	4,377,334	2,787,139
Finance costs													(60,552)	(71,991)
Share of (loss) profit of associates	(10,419)	(2,064)	10,328	9,666	40	(28)	–	–	–	–	(4,604)	(3,139)	(4,655)	4,435
Share of profit of a jointly controlled entity	20,406	23,344	–	–	–	–	–	–	–	–	–	–	20,406	23,344
Profit before tax													4,332,533	2,742,927
Income tax expense													(1,191,638)	(884,036)
Profit for the year													3,140,895	1,858,891
BALANCE SHEET														
Segment assets	14,932,298	15,243,176	86,838	86,044	85,431	81,299	–	–	11,224,267	3,665,547	–	–	26,328,834	19,076,066
Available-for-sale investments	1,000	1,000	–	–	–	–	–	–	–	–	–	–	1,000	1,000
Other receivables	–	–	–	–	–	–	–	–	–	–	–	–	587,362	180,514
Interests in associates	305,982	35,000	153,307	149,479	537	497	–	–	–	–	19,412	39,881	479,238	224,857
Interest in a jointly controlled entity	100,505	87,982	–	–	–	–	–	–	–	–	–	–	100,505	87,982
Assets classified as held for sale	–	–	–	–	–	–	–	–	–	–	15,865	–	15,865	–
Consolidated total assets							–						27,512,804	19,570,419
Segment liabilities	436,877	627,890	120,059	83,948	48,250	46,651	–	–	8,101,197	2,578,255	–	–	8,706,383	3,336,744
Tax liabilities													994,727	537,265
Dividend payable													33,385	41,595
Bank and other loans													621,990	845,407
Long-term bonds													1,000,000	1,000,000
Deferred tax liabilities													392,005	456,956
Consolidated total liabilities													11,748,490	6,217,967
OTHER INFORMATION														
Capital expenditure	1,096,346	657,399	31,698	17,075	6,828	16,678	–	–	136,000	9,560	–	468,900	1,270,872	1,169,612
Depreciation and amortisation	602,416	595,170	21,101	12,495	6,428	4,123	–	–	25,569	11,651	–	–	655,514	623,439
Loss on disposal/retirement of property, plant and equipment	56,521	1,480	–	1,806	–	156	–	–	256	769	–	–	56,777	4,211
Operating lease rentals in respect of land use rights	18,811	18,134	–	–	–	–	–	–	492	246	–	–	19,303	18,380

7. REVENUE AND OTHER INCOME

Revenue mainly represents income from the operation of tolled expressways, the operation of service area businesses, the provision of advertising services, the provision of road maintenance services, the provision of securities broking services and proprietary trading, net of discounts and relevant revenue taxes.

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

	2007 Rmb'000	2006 Rmb'000
Toll operation revenue	**3,897,819**	3,562,289
Service area businesses revenue	**1,261,526**	962,418
Advertising business revenue	**64,891**	50,239
Road maintenance revenue	**1,217**	5,464
Securities operation revenue	**1,804,927**	183,370
Total revenue	**7,030,380**	4,763,780
Gain on fair value changes on held-for-trading investments	**475,828**	80,421
Interest income	**20,997**	26,481
Net exchange gain	**40,302**	22,299
Towing income	**19,446**	21,691
Rental income	**32,079**	21,362
Others	**21,783**	31,698
Total other income	**610,435**	203,952
	7,640,815	4,967,732

The Company and its subsidiaries are subject to the business tax levied at 3% on toll income and 5% on other service income and income from proprietary securities trading. In addition, the subsidiaries are subject to the following types of revenue taxes and surcharges:

– City development tax, levied at 1% to 7% of business tax;

– Education surcharge, levied at 2% to 5% of business tax; and

– Culture and education fund, levied at 3% on advertising income.

8. FINANCE COSTS

	2007 Rmb'000	2006 Rmb'000
Interest on bank loans wholly repayable within five years	**22,141**	13,896
Interest on other loans	**34,059**	31,505
Interest on long-term bonds	**42,900**	42,900
Total borrowing costs	**99,100**	88,301
Less: amount capitalised in respect of specific borrowings	**(38,548)**	(16,310)
	60,552	71,991

Borrowing costs capitalised during the year are calculated by applying a capitalisation rate of 4.29% (2006: 4.29%) to expenditure on qualifying assets.

9. PROFIT BEFORE TAX

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

	2007 Rmb'000	2006 Rmb'000
Commission income from securities operation (included in revenue)	**(1,684,284)**	(163,987)
Interest income from securities operation (included in revenue)	**(120,643)**	(19,383)
Depreciation of property, plant and equipment	**655,514**	623,439
Operating lease rentals in respect of land use rights (included in operating costs)	**19,303**	18,380
Amortisation of expressway operating rights (included in operating costs)	**8,700**	8,700
Amortisation of other intangible assets (included in operating costs)	**7,289**	3,133
Loss on disposal/retirement of property, plant and equipment	**56,777**	4,211
Write-down of goodwill	**5,956**	—
Auditors' remuneration	**6,531**	3,671
Staff costs (including directors and supervisors):		
– Wages and salaries	**374,507**	171,629
– Pension scheme contributions	**27,230**	20,764
	401,737	192,393
Cost of inventories recognised as an expense	**1,115,597**	845,818
Share of tax of associates (included in share of (loss) profit of associates)	**4,858**	4,918
Share of tax of a jointly controlled entity (included in share of profit of a jointly controlled entity)	**10,132**	11,662

10. INCOME TAX EXPENSE

No Hong Kong profits tax has been provided as the Group had no taxable profits derived in Hong Kong during the year.

The Group was subject to the PRC enterprise income tax ("EIT") levied at a rate of 33% of taxable income determined in accordance with the PRC laws and financial reporting system.

	2007	2006
	Rmb'000	Rmb'000
Current PRC income tax	**1,314,241**	876,874
Deferred tax (Note 35):		
Current year	**(16,996)**	7,162
Attributable to a change in tax rate	**(105,607)**	—
	(122,603)	7,162
	1,191,638	884,036

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

	2007		2006	
	Rmb'000	**%**	Rmb'000	%
Profit before tax	**4,332,533**		2,742,927	
Tax at the PRC statutory income tax rate	**1,429,736**	**33.0**	905,166	33.0
Tax effect of share of losses (profits) of associates	**1,536**	**—**	(1,464)	(0.1)
Tax effect of share of profit of a jointly controlled entity	**(6,734)**	**(0.2)**	(7,703)	(0.3)
Tax effect of income not taxable for tax purposes	**(4,920)**	**(0.1)**	(22,118)	(0.8)
Tax effect of expenses not deductible for tax purposes	**64,350**	**1.5**	10,155	0.4
Utilisation of tax losses previously not recognised as deferred tax assets (i)	**(186,723)**	**(4.3)**	—	—
Effect of on deferred tax balances due to the change in income tax rate from 33% to 25% (ii)	**(105,607)**	**(2.4)**	—	—
Tax charge and effective tax rate for the year	**1,191,638**	**27.5**	884,036	32.2

10. INCOME TAX EXPENSE (continued)

Notes:

(i) The tax loss arose mainly from a bad debt provision made by Zheshang Securities Co., Ltd. ("Zheshang Securities") in 2005 prior to its acquisition by the Group in relation to misappropriation of assets perpetrated by Kinghing Trust Investment Co., Ltd. ("Kinghing Investment"), the former majority equity owner of Zheshang Securities. For details, please refer to Notes 33 and 40.

The bad debt provision was treated as a non-deductible expense at the date of acquisition of Zheshang Securities by the Group in 2006. In 2007, the relevant tax authorities granted Zheshang Securities a dispensation to claim tax deduction on the bad debt provision and accordingly, the resulting tax loss was utilised in 2007.

(ii) On March 16, 2007, the PRC promulgated Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No.63 of the President of the PRC. On December 6, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulation will change the tax rate from 33% to 25% for the Group from January 1, 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments paid or payable to each of the 9 (2006: 10) directors and 5 (2006: 5) supervisors were as follows:

	Geng Xiaoping	Fang Yunti	Xuan^ Daoguang	Zhang Jingzhong	Jiang Wenyao	Zhang Luyun	Zhang Yang	Tung* Chee Chen	Zhang* Junsheng	Zhang* Liping	Ma# Kehua	Fang# Zhexing	Zheng# Qihua	Jiang# Shaozhong	Wu# Yongmin	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2007																
Salaries, allowances and benefits in kind	527	400	–	388	358	4	3	250	52	251	3	4	–	1	3	2,244
Bonuses paid and payable	360	277	–	195	225	–	–	–	–	–	–	–	–	–	–	1,057
Pension scheme contributions	12	12	–	12	12	–	–	–	–	–	–	–	–	–	–	48
Total emoluments	899	689	–	595	595	4	3	250	52	251	3	4	–	1	3	3,349
2006																
Salaries, allowances and benefits in kind	535	416	27	339	364	5	4	202	54	202	1	2	1	2	3	2,157
Bonuses paid and payable	352	261	72	244	219	–	–	–	–	–	–	–	–	–	–	1,148
Pension scheme contributions	12	12	–	12	12	–	–	–	–	–	–	–	–	–	–	48
Total emoluments	899	689	99	595	595	5	4	202	54	202	1	2	1	2	3	3,353

^ Former director
* Independent non-executive directors
# Supervisors

The emoluments of each of the directors and supervisors for both years were below HK$1,000,000 (equivalent to Rmb935,000). 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 during both years.

Bonuses are determined by reference to the individual performance of the directors.

12. EMPLOYEES' EMOLUMENTS

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

	2007 Rmb'000	2006 Rmb'000
Salaries, allowances and benefits in kind	**1,000**	1,957
Bonuses paid and payable	**4,127**	1,263
Pension scheme contributions	**63**	60
	5,190	3,280

The five individuals with the highest emoluments in the Group during the year included one (2006: four) director, whose emoluments are set out in Note 11 above, as well as four (2006: one) non-director employees.

Their emoluments were within the following bands:

	2007 No. of individuals	2006 No. of individuals
HK$Nil to HK$1,000,000	**1**	5
HK$1,000,001 to HK$1,500,000	**4**	—
HK$1,500,001 to HK$2,000,000	**—**	—
HK$2,000,001 to HK$2,500,000	**—**	—
HK$2,500,001 to HK$3,000,000	**—**	—

13. DIVIDENDS

The final dividend of Rmb24 cents (2006: Rmb20 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on profit for the year attributable to equity holders of the Company of Rmb2,415,965,000 (2006: Rmb1,652,871,000) and the 4,343,114,500 (2006: 4,343,114,500) ordinary shares in issue during the year.

No diluted earnings per share has been presented as there were no potential dilutive ordinary shares in issue in both years.

15. PROPERTY, PLANT AND EQUIPMENT

	Expressways and bridges Rmb'000	Leasehold land and buildings Rmb'000	Toll stations and ancillary facilities Rmb'000	Communi–cations 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, 2006	13,208,529	–	389,667	339,677	134,752	202,921	950,325	15,225,871
Additions	2,410	–	5,618	10,991	10,971	39,161	633,369	702,520
Acquired on acquisition of a subsidiary	–	272,520	–	–	4,775	20,847	–	298,142
Non-current assets classified as held-for-sale	–	–	–	–	(195)	(84)	–	(279)
Transfers	75,349	–	35,256	–	–	1,596	(112,201)	–
Reclassifications	–	64,676	(54,064)	(15,753)	(228)	5,369	–	–
Disposals/retirement	(16,102)	(1,804)	(11,946)	(8,336)	(7,598)	(15,152)	–	(60,938)
At December 31, 2006	13,270,186	335,392	364,531	326,579	142,477	254,658	1,471,493	16,165,316
Additions	–	5,543	1,383	27,381	11,056	21,508	781,177	848,048
Acquired on acquisition of a subsidiary	–	–	–	2,271	369	–	–	2,640
Transfers	2,182,839	–	57,183	993	208	5,121	(2,246,344)	–
Reclassifications	9,140	–	135	(2,219)	3,531	(10,587)	–	–
Disposals/retirement	(68,195)	–	–	(114,515)	(5,000)	(12,680)	–	(200,390)
At December 31, 2007	15,393,970	340,935	423,232	240,490	152,641	258,020	6,326	16,815,614
DEPRECIATION								
At January 1, 2006	1,334,008	–	77,054	228,875	77,259	86,070	–	1,803,266
Provided for the year	526,239	5,127	18,562	37,311	13,740	22,460	–	623,439
Reclassifications	(54)	12,482	(12,394)	(3,090)	(99)	3,155	–	–
Disposals/retirement	(1,523)	(1,206)	(8,953)	(7,841)	(6,959)	(10,528)	–	(37,010)
At December 31, 2006	1,858,670	16,403	74,269	255,255	83,941	101,157	–	2,389,695
Provided for the year	547,571	13,611	20,283	26,741	15,641	31,667	–	655,514
Reclassifications	3,272	–	468	(10,204)	1,808	4,656	–	–
Disposals/retirement	(15,355)	–	–	(104,808)	(4,124)	(11,997)	–	(136,284)
At December 31, 2007	2,394,158	30,014	95,020	166,984	97,266	125,483	–	2,908,925
CARRYING VALUES								
At December 31, 2007	12,999,812	310,921	328,212	73,506	55,375	132,537	6,326	13,906,689
At December 31, 2006	11,411,516	318,989	290,262	71,324	58,536	153,501	1,471,493	13,775,621

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

15. PROPERTY, PLANT AND EQUIPMENT (continued)

The carrying value of leasehold land and buildings shown above comprises:

	2007 Rmb'000	2006 Rmb'000
Leasehold land and buildings in the PRC:		
Long lease	**11,664**	11,947
Medium-term lease	**299,257**	307,042
	310,921	318,989

16. PREPAID LEASE PAYMENTS

	2007 Rmb'000	2006 Rmb'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Medium-term lease	**412,522**	409,284
Analysed for reporting purposes as:		
Current assets	**19,098**	18,626
Non-current assets	**393,424**	390,658
	412,522	409,284

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

17. GOODWILL

	Rmb'000
COST	
At January 1, 2006	85,472
Arising on acquisition of a subsidiary	5,956
At December 31, 2006	91,428
Arising on acquisition of a subsidiary	1,395
Write-down	(5,956)
At December 31, 2007	86,867

The write-down during 2007 arose from the subsequent utilisation of a tax loss incurred by Zheshang Securities which did not meet the criteria for separate recognition at the date of its acquisition by the Group in 2006. For details, please refer to Note 10(i).

Particulars regarding impairment testing on goodwill are disclosed in Note 19.

18. 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, 2006	—	—	—	—	—
Acquired on acquisition of a subsidiary	93,997	51,783	2,080	—	147,860
At December 31, 2006	93,997	51,783	2,080	—	147,860
Acquired on acquisition of a subsidiary	7,150	11,300	1,400	758	20,608
Additions	—	—	—	4,180	4,180
At December 31, 2007	101,147	63,083	3,480	4,938	172,648
AMORTISATION					
At January 1, 2006	—	—	—	—	—
Charge for the year	3,133	—	—	—	3,133
At December 31, 2006	3,133	—	—	—	3,133
Charge for the year	6,663	—	—	626	7,289
At December 31, 2007	9,796	—	—	626	10,422
CARRYING VALUES					
At December 31, 2007	91,351	63,083	3,480	4,312	162,226
At December 31, 2006	90,864	51,783	2,080	—	144,727

The above intangible assets were purchased as part of business combinations during both 2006 and 2007.

The customer bases of the securities operation have a definite useful life. The customer bases of Zheshang Securities and Tianma Futures are amortised on a straight-line basis over 15 years and three 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.

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 five years.

Particulars of the impairment testing are disclosed in Note 19.

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

As explained in Note 6, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill and other intangible assets with indefinite useful lives set out in Notes 17 and 18 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 as at December 31, 2007 allocated to these units are as follows:

	Goodwill		Securities/futures firm licenses		Trading seats	
	2007 Rmb'000	2006 Rmb'000	**2007 Rmb'000**	2006 Rmb'000	**2007 Rmb'000**	2006 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	**—**	5,956	**51,783**	51,783	**2,080**	2,080
– Zhejiang Tianma Futures Broker Co., Ltd. ("Tianma Futures")	**1,395**	—	**11,300**	—	**1,400**	—
	86,867	91,428	**63,083**	51,783	**3,480**	2,080

During the year ended December 31, 2007, the management of the Group determines that there has been no impairment of any of its CGUs containing goodwill or other intangible assets with indefinite useful lives.

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%. No growth rate has been assumed beyond the five-year period.

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 four-year period and a discount rate of 23.5%. Nominal growth rate has been assumed beyond the four-year period.

19. IMPAIRMENT TESTING ON GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (continued)

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 19.3%. Nonimal growth rate has been assumed beyond the five-year period.

20. INTERESTS IN ASSOCIATES

	2007 Rmb'000	2006 Rmb'000
Unlisted investments in associates, at cost	**450,425**	184,996
Share of post-acquisition profits, net of dividends received	**28,813**	39,861
	479,238	224,857

At December 31, 2007, 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 2007	2006	Principal activities
			%	%	
Zhejiang Expressway Petroleum Development Co., Ltd. ("Petroleum Co")	Corporate	The PRC	**50**	50	Construction and operation of petrol stations and sale of petroleum products
JoinHands Technology Co., Ltd. ("JoinHands Co") (i)	Corporate	The PRC	**27.58**	27.58	Provision of logistics services and anti-counterfeiting systems in the PRC
Zhejiang Concord Property Investment Co., Ltd. ("Concord Co") (ii)	Corporate	The PRC	**22.95**	22.95	Investment and real estate development
Hangzhou Yuhang Communication Time Plaza Co., Ltd. ("Time Plaza Co") (iii)	Corporate	The PRC	**15.3**	15.3	Investment and real estate development

20. INTERESTS IN ASSOCIATES (continued)

Name of entity	Form of business structure	Place of registration and operation	Percentage of equity interest attributable to the Group 2007	2006	Principal activities
			%	%	
Zhejiang Jiashao Expressway Co., Ltd. ("Jiashao Co")	Corporate	The PRC	**35**	35	Construction and management of the Jiashao Expressway
Ningbo Expressway Advertising Co., Ltd. ("Ningbo Advertising Co") (iv)	Corporate	The PRC	**12.5**	12.5	Management of advertising billboards along expressways
Zhejiang Jinhua Yongjin Expressway Co., Ltd. ("Jinhua Co")	Corporate	The PRC	**23.45**	—	Construction and management of the Jinhua section of the Ningbo-Jinhua Expressway

Notes:

(i) The Company is in the process of disposing of its 27.58% equity interest in JoinHands Co at the property exchange centre in accordance with the relevant rules and regulations on state-owned asset management. On April 19, 2007, the Company entered into an equity transfer agreement with Guangzhou Zhongda Kaisi Group Co., Ltd. ("Zhongda Kaisi") whereby Zhongda Kaisi had undertaken to bid for such equity interest at the property exchange centre at a price no less than its valuation to be determined by an accredited valuer. The interest in JoinHands Co has been classified as an asset held for sale and is presented separately in the balance sheet. The net proceeds of disposal are expected to exceed the carrying amount of the interest in JoinHands Co and therefore no impairment loss has been recognised.

(ii) Concord Co is a 45%-owned associate of Zhejiang Expressway Investment Development Co., Ltd. ("Development Co"), a 51%-owned subsidiary of the Company.

(iii) Time Plaza Co is a 30%-owned associate of Zhejiang Yuhang Expressway Co., Ltd. ("Yuhang Co"), a 51%-owned subsidiary of the Company.

(iv) Ningbo Advertising Co is a 35%-owned associate of Zhejiang Expressway Advertising Co., Ltd. ("Advertising Co"), a 70%-owned subsidiary of Development Co.

20. INTERESTS IN ASSOCIATES (continued)

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

	2007 Rmb'000	2006 Rmb'000
Total assets	4,382,281	1,290,436
Total liabilities	(2,673,300)	(722,450)
Net assets	1,708,981	567,986
Group's share of net assets of associates *	495,103	224,857
Revenue	2,966,548	2,642,196
(Loss) profit for the year	(14,580)	28,966
Group's share of results of associates for the year	(4,655)	4,435

*Including the carrying amount of Rmb15,865,000 representing the interest in JoinHands Co as at December 31, 2007 which has been classified as an asset held for sale and is presented separately in the balance sheet.

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2007 Rmb'000	2006 Rmb'000
Unlisted investment in a jointly controlled entity, at cost	65,000	65,000
Share of post-acquisition profits, net of dividends received	35,505	28,823
	100,505	93,823
Amount due to jointly controlled entity	—	(5,841)
	100,505	87,982

The amount due to a jointly controlled entity is unsecured, interest-free and repayable on demand.

At December 31, 2007, the Group had interests in the following jointly controlled entity:

Name of entity	Form of business structure	Place of registration and operation	Percentage of equity interest held by the Group	Profit sharing	Principal activities
Hangzhou Shida Expressway Co., Ltd.	Corporate	The PRC	50%	50%	Construction and operation of the Shiqiao-Dajing expressway

21. INTEREST IN A JOINTLY CONTROLLED ENTITY (continued)

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

	2007 Rmb'000	2006 Rmb'000
Current assets	**25,400**	13,629
Non-current assets	**148,295**	154,019
Current liabilities	**(58,433)**	(69,089)
Non-current liabilities	**(14,757)**	(4,736)
Income	**44,989**	49,160
Expenses	**(24,583)**	(25,816)

22. AVAILABLE-FOR-SALE INVESTMENTS

Available-for-sale investments comprise:

	2007 Rmb'000	2006 Rmb'000
Unlisted equity investments, at cost (included in non-current assets) (i)	**1,000**	1,000
Listed equity investments in the PRC, at fair value (included in current assets) (ii)	**595,758**	—
	596,758	1,000

Notes:

(i) Unlisted equity investments represent investments in unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at each balance sheet date 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 and are subject to a lock-up period of one year. They are measured at fair value after taking into account the lock-up period, with changes in fair value recognised in equity.

23. EXPRESSWAY OPERATING RIGHTS

	Rmb'000
COST	
At January 1, 2006, December 31, 2006 and December 31, 2007	261,000
AMORTISATION	
At January 1, 2006	72,455
Charge for the year	8,700
At December 31, 2006	81,155
Charge for the year	8,700
At December 31, 2007	89,855
CARRYING VALUES	
At December 31, 2007	171,145
At December 31, 2006	179,845

The above expressway operating rights were granted by the Zhejiang Provincial Government to the Group in 1997 for a period of 30 years. During the 30-year expressway concessionary period, the Group has the rights of construction and management of Shanghai-Hangzhou-Ningbo Expressway and Shangsan Expressway and the toll-collection rights thereof. The Group is required to construct, maintain and operate the expressways in accordance with the regulations promulgated by the Ministry of Communication and relevant government authorities.

24. TRADE RECEIVABLES

The Group allows an average credit period of approximately 180 days to its trade customers. An aging analysis of trade receivables at the balance sheet date, based on invoice date, is as follows:

	2007 Rmb'000	2006 Rmb'000
Within 1 year (neither past due nor impaired)	**76,930**	52,773
1 to 2 years (past due but not impaired)	**4,181**	471
Over 2 years (past due but not impaired)	**1,566**	1,207
	82,677	54,451

Included in the balance aged within 1 year were tolls receivable from the Expressway Fee Settlement Centre of the Highway Administration Bureau of Zhejiang Province amounting to Rmb69,453,000 (2006: Rmb44,912,000). 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.

25. OTHER RECEIVABLES

	2007 Rmb'000	2006 Rmb'000
Deposits and other debtors (Note)	**168,992**	163,495
Prepayments	**48,370**	17,019
Entrusted loan to a related party (Note 41(a))	**370,000**	—
	587,362	180,514

Note: Included in deposits and other debtors at December 31, 2006 and 2007 was capital contribution into Zheshang Securities on behalf of certain equity holders of Rmb131.1 million. These equity holders have provided undertakings in writing to the Group to repay the capital contributed by the Group on their behalf by assigning to the Group their rights to receive future dividends from Zheshang Securities until their repayment obligations are discharged in full.

26. HELD-FOR-TRADING INVESTMENTS

	2007 Rmb'000	2006 Rmb'000
Listed securities in the PRC, at fair value:		
Equity securities	**533,574**	226,586
Open-end equity funds	**7,677**	3,294
Corporate bonds with fixed interest of 5.85% per annum and maturity date on November 19, 2022	**79,969**	—
	621,220	229,880

27. BANK BALANCES HELD ON BEHALF OF CUSTOMERS

From its securities operation, the Group receives and holds money deposited by customers and other institutions. These customers' money are 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 0.99% to 2.62% (2006: 0.99% to 1.62%) 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 Rmb'000	USD Rmb'000
As at December 31, 2007	10,331	70,885
As at December 31, 2006	4,880	14,055

28. BANK BALANCES AND CASH

	2007 **Rmb'000**	2006 Rmb'000
Restricted bank balances (Note)	**35,000**	35,000
Time deposits with original maturity over three months	**226,972**	131,312
Unrestricted bank balances and cash	**2,738,811**	1,275,690
Time deposits with original maturity of less than three months	**35,000**	228,383
Cash and cash equivalents	**2,773,811**	1,504,073
	3,035,783	1,670,385

Note: Included in bank balances at December 31, 2006 and 2007 was an amount of Rmb35,000,000 which had been frozen by China Securities Depository and Clearing Corporation Limited Shanghai Branch in connection with guarantees issued by Zheshang Securities, a subsidiary acquired during 2006. For details, please refer to Note 33(i).

Bank balances carry interest at market rates which range from 0.72% to 2.62% (2006: 0.72% to 1.44%) per annum. Time deposits carry interest at fixed rates ranging from 1.62% to 4.41% (2006: 1.62% to 2.5%) per annum.

28. BANK BALANCES AND CASH (continued)

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

	HKD Rmb'000	USD Rmb'000
As at December 31, 2007	3,324	21,507
As at December 31, 2006	1,546	8,661

29. TRADE PAYABLES

An aging analysis of trade payables at the balance sheet date, based on invoice date, is as follows:

	2007 **Rmb'000**	2006 Rmb'000
Within 1 year	**701,106**	357,172
1 to 2 years	**25,244**	11,323
2 to 3 years	**9,867**	714
Over 3 years	**673**	114
	736,890	369,323

30. 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 aging 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 Rmb'000	USD Rmb'000
As at December 31, 2007	10,331	70,885
As at December 31, 2006	—	14,057

31. OTHER PAYABLES AND ACCRUALS

	2007 Rmb'000	2006 Rmb'000
Accruals	**52,356**	56,999
Other liabilities	**501,365**	350,142
Amount due to ultimate holding company	**2,599**	2,599
	556,320	409,740

The amount due to ultimate holding company, the Communications Investment Group, was unsecured, interest-free and repayable on demand.

32. INTEREST-BEARING BANK AND OTHER LOANS

	2007 Rmb'000	2006 Rmb'000
Bank loans, unsecured	**20,000**	125,000
Other loans, unsecured	**601,990**	720,407
	621,990	845,407
Bank loans repayable:		
Within one year	**20,000**	125,000
Other loans repayable:		
Within one year	**268,045**	272,141
In the second year	**89,339**	91,275
In the third to fifth years, inclusive	**244,606**	291,448
Beyond five years	**—**	65,543
	601,990	720,407
	621,990	845,407
Less: Amount due within one year shown under current liabilities	**(288,045)**	(397,141)
	333,945	448,266

The bank loans carry interest at a fixed rate of 6.57% (2006: 5.02% to 5.58%) per annum.

The other loans represent mainly loans from the World Bank via municipal governments and carry floating interest at 5.10% (2006: 4.55%) per annum (both the effective interest rate and contracted interest rate), the rate prescribed by the World Bank, and are repayable by semi-annual instalments.

The bank and other loans of the Group that are denominated in currencies other than Rmb amounted to Rmb564,590,000 (USD77,292,000) as at December 31, 2007 (2006: Rmb657,805,000 (USD84,240,000)).

33. PROVISIONS

	2007 Rmb'000	2006 Rmb'000
Provision for:		
Guarantees in favour of corporations (i)	**34,800**	34,800
Guarantees in favour of individuals (ii)	**17,810**	—
Litigation (iii)	**111,414**	—
	164,024	34,800

Notes:

(i) the obligation of Zheshang Securities, a subsidiary acquired in 2006, under guarantees issued in respect of the state bond investment agency agreements and fund trust agreements entered into between Kinghing Investment and its corporate customers. As Kinghing Investment has ceased its operations and its restructuring is underway, the directors consider that it is probable that such guarantees will be exercised. As a result, a full provision of Rmb34.8 million has been made by Zheshang Securities prior to its acquisition;

(ii) the full provision of Rmb17.8 million made in 2007 for guarantees issued in respect of the fund trust agreements entered into between Kinghing Investment and its individual customers; and

(iii) the potential liability arising from the legal proceedings taken by its customers against Zheshang securities for disputes over the state bond investment agency agreement.

14 customers of Zheshang Securities previously entered into state bond investment agency agreements with Kinghing Investment, whereby Zheshang Securities kept in custody state bonds in an aggregate principal amount of Rmb106.5 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.

2006

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 and its restructuring was underway. It was understood that the 14 customers have already registered their claims with Kinghing Investment's restructuring team. By the date of the 2006 annual report, one of the 14 customers had started legal proceedings against Zheshang Securities for disputes over the state bond investment agency agreement.

After consultation with their legal advisors and other legal experts, the directors believed that, from a legal point of view, Zheshang Securities should not take any legal responsibility, whether or not all the 14 customers choose to take them to court. However, one should not rule out the possibility that the court may, after considering, inter alia, Zheshang Securities' role in the performance of the state bond investment agency agreements, request Zheshang Securities to share part of the liability. The impact to the consolidated financial statements as a whole was not expected to be material should this situation arise. As a result, these legal proceedings were disclosed as contingent liabilities in the 2006 annual report.

33. PROVISIONS (continued)

(iii) the potential liability arising from the legal proceedings taken by its customers against Zheshang securities for disputes over the state bond investment agency agreement. (continued)

2007

After the publication of the 2006 annual report, eight other of the fourteen customers have initiated legal proceedings against Zheshang Securities for disputes over the state bond investment agency agreements. In respect of the proceedings brought by three of these nine customers, the court of first instance ruled against Zheshang Securities. Zheshang Securities appealed to the court of second instance over the rulings given by the court of first instance. The court of second instance overturned the rulings given to two of the customers by the court of first instance and sent the two cases back for retrial. The appeal in relation to the remaining one case is still in progress.

On January 15, 2008, the Intermediate People's Court of Jinhua City opened a case for the bankruptcy settlement of Kinghing Investment and appointed the settlement team of Kinghing Investment as the administrator.

Considering the developments in the legal proceedings and the general risk management principles applied in the PRC financial industry, the directors have resolved to make a full provision of Rmb111.4 million in 2007 against the disputes over the state bond investment agency agreements with all 14 customers.

34. LONG-TERM BONDS

	2007 Rmb'000	2006 Rmb'000
Long-term bonds – listed in the PRC	**1,000,000**	1,000,000

The long-term bonds are unsecured, carry interest at a fixed rate of 4.29% per annum and are repayable in 2013 upon maturity.

In the opinion of the directors, the fair value of the long-term bonds estimated by discounting their future cash flows at the prevailing market borrowing rate for similar borrowings at the balance sheet date approximates their carrying amount.

35. DEFERRED TAXATION

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

	Provisions	Changes in fair value of held-for-trading and available-for-sale investments	Accelerated tax depreciation	Fair value adjustments (Note 37)	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
At January 1, 2006	—	2,966	381,187	—	384,153
Acquisition of a subsidiary	—	8,633	—	57,008	65,641
Charge (credit) to income statement for the year (Note 10)	—	17,344	(9,021)	(1,161)	7,162
At December 31, 2006	—	28,943	372,166	55,847	456,956
Effect of change in tax rate (Note 10)	—	(7,265)	(85,353)	(12,989)	(105,607)
Charge (credit) to income statement for the year (Note 10)	(41,006)	46,399	(20,122)	(2,267)	(16,996)
Charge to equity for the year	—	57,652	—	—	57,652
At December 31, 2007	(41,006)	125,729	266,691	40,591	392,005

36. SHARE CAPITAL

	Number of shares		Share capital	
	2007	2006	**2007**	2006
			Rmb'000	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

There were no movements in share capital during both years.

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.

36. SHARE CAPITAL (continued)

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.

37. ACQUISITION OF A SUBSIDIARY

Particulars of the subsidiaries acquired during 2006 and 2007 were as follows:

Acquired company	Principal activities	Acquisition date	Equity interest acquired	Consideration
				Rmb'000
Zheshang securities	Operation of securities business	July 1, 2006	70.46%	468,900
Tianma Futures	Operation of securities business	October 19, 2007	100%	136,000

The acquisition of Tianma Futures was approved by the China Securities Regulatory Commission on October 10, 2007, and the Group assumed control over Tianma Futures with effect from October 19, 2007, when an extraordinary general meeting of equity holders was held to approve the new articles of association and to elect representatives of the Group onto a new session of the board of directors.

This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was Rmb1,395,000.

37. ACQUISITION OF A SUBSIDIARY (continued)

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amont before combination Rmb'000	Fair value adjustments Rmb'000	2007 Rmb'000	2006 Rmb'000
Net assets acquired:				
Property, plant and equipment	2,640	—	**2,640**	298,142
Prepaid lease payments	—	—	**—**	22,078
Other intangible assets	2,158	18,450	**20,608**	147,860
Trade receivables	795	—	**795**	—
Other receivables	—	—	**—**	8,553
Held-for-trading investments	5,552	—	**5,552**	63,030
Bank balances held on behalf of customers	680,249	—	**680,249**	2,252,727
Bank balances and cash	83,787	—	**83,787**	290,749
Accounts payable to customers arising from securities dealing business	(646,160)	—	**(646,160)**	(2,248,089)
Tax liabilities	(4,570)	—	**(4,570)**	(38,562)
Other taxes payable	(462)	—	**(462)**	(1,363)
Other payables and accruals	(7,834)	—	**(7,834)**	(37,467)
Provisions	—	—	**—**	(34,800)
Deferred tax liabilities	—	—	**—**	(65,641)
	116,155	18,450	**134,605**	657,217
Minority interests			**—**	(194,273)
Goodwill arising on acquisition			**1,395**	5,956
Total consideration, satisfied by cash			**136,000**	468,900
Net cash outflow arising on acquisition:				
Cash consideration paid			**(136,000)**	(468,900)
Bank balances and cash acquired, net of restricted bank balances of nil (2006: Rmb35,000,000) (Note 28)			**83,787**	255,749
			(52,213)	(213,151)

In the opinion of the directors, the consideration for this acquisition represents a true reflection of the net fair value of Tianma Futures' identifiable assets and liabilities acquired.

Zheshang Securities contributed Rmb183,370,000 and Rmb121,876,000 to the Group's revenue and profit respectively for the period between the date of acquisition and December 31, 2006.

37. ACQUISITION OF A SUBSIDIARY (continued)

If the acquisition of Zheshang Securities had been completed on January 1, 2006, total group revenue for the year ended December 31, 2006 would have been Rmb5,045,569,000 and profit for the year ended December 31, 2006 would have been Rmb1,939,359,000.

Tianma Futures contributed Rmb11,592,000 of revenue and Rmb4,681,000 of loss to the Group for the period between the date of acquisition and December 31, 2007.

If the acquisition of Tianma Futures had been completed on January 1, 2007, total group revenue for the year ended December 31, 2007 would have been Rmb7,081,567,000 and profit for the year ended December 31, 2007 would have been Rmb3,148,197,000.

The pro forma information is for illustrative purposes only and is not necessarily the indicative results of the Group that actually would have been achieved had the acquisitions been completed on January 1, 2006 and 2007 respectively, nor is it intended to be a projection of future results.

38. 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.

39. COMMITMENTS

	2007 Rmb'000	2006 Rmb'000
Contracted for but not provided for in the consolidated financial statements:		
– Proposed capital injection into Jiashao Co	**1,110,375**	1,110,375
– Construction of expressways	**—**	1,010,014
– Proposed acquisition of additional interest in Shangsan Co	**485,000**	485,000
– Proposed investment in Jinhua Co	**—**	281,400
– Renovation of service areas	**—**	4,256
– Office decoration	**—**	1,939
	1,595,375	2,892,984
Authorised but not contracted for:		
– Construction of expressways	**1,123,066**	855,340
– Purchase of machinery	**80,000**	80,000
– Renovation of service areas	**54,310**	45,000
	1,257,376	980,340

40. OPERATING LEASES

THE GROUP AS LESSEE

	2007 Rmb'000	2006 Rmb'000
Minimum lease payments paid under operating leases during the period:		
Service areas	—	—

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2007 Rmb'000	2006 Rmb'000
Within one year	2,300	—
In the second to fifth years inclusive	29,350	—
Over five years	40,900	—
	72,550	—

Operating lease payments represent rentals payable by the Group for certain service areas along expressways located in Zhejiang and Tianjin. The leases were entered into at the end of 2007. They are negotiated for an average term of 10 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, with negotiated terms ranging from one to 25 years and rental increments provided for.

At December 31, 2007, the Group had contracted with tenants for the following future minimum lease payments:

	2007 Rmb'000	2006 Rmb'000
Within one year	18,936	12,742
In the second to fifth years inclusive	13,074	17,218
After five years	20,576	28,688
	52,586	58,648

41. 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 Investment 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 an interest rate of 8.97% per annum. The entrusted loan was guaranteed by the Communications Investment Group. See also Note 25.

(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 Huhangyong and Shangsan Expressways, Petroleum Co will with their expertise assist Development Co in running their petrol stations along the Huhangyong and Shangsan Expressways. Purchases of petroleum products from Petroleum Co during 2007 amounted to Rmb970,761,000 (2006: Rmb734,160,000).

(c) See Notes 21 and 31 for details of balances with a jointly controlled entity and other related parties respectively.

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 Investment Group which is controlled by the PRC government. Apart from the transactions with the Communications Investment Group and parties under the common control of the Communications Investment 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.

In addition, 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 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.

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Date and place of registration	Registered and paid-in capital Rmb	Percentage of equity interest attributable to the Company Direct 2007	Direct 2006	Indirect 2007	Indirect 2006	Principal activities
Yuhang Co	Note 1	75,223,000	**51**	51	**–**	–	Construction and management
					–	–	of the Yuhang Section of the Shanghai-Hangzhou Expressway
Jiaxing Co	Note 2	1,859,200,000	**99.999454**	99.999454	**–**	–	Construction and management of the Jiaxing Section of the Shanghai-Hangzhou Expressway
Shangsan Co	Note 3	2,400,000,000	**73.625**	73.625	**–**	–	Construction and management of the Shangsan Expressway
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
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**	–	Operation of securities business

* 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 Company'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 Company's control over it.

*** The company is a subsidiary of Zheshang Securities, a non-wholly-owned subsidiary of Shangshan Co, and, accordingly, is accounted for as a subsidiary by virtue of the Company'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.

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.

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (continued)

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.

43. COMPARATIVE FIGURES

Certain comparative figures in Note 6 have been reclassified to conform to the current year's presentation.

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Fang Yunti (General Manager)
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Jiang Wenyao

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Zhang Luyun
Zhang Yang

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

SUPERVISORS
Ma Kehua
Fang Zhexing
Zheng Qihua
Jiang Shaozhong
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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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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