Notes to the Financial Statements

For the Year ended December 31, 2005

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 27, 2001, the trading of the H Shares of the Company on the Berlin Stock Exchange commenced following a secondary listing on the Unofficial Regulated Market of the exchange.

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 the ADRs representing the deposited H Shares of the Company effective.

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

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

During the year, the Group was involved in the following principal activities:

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

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

In the opinion of the Directors, the 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.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, all of the new and revised Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRS") and interpretations (thereafter collectively referred to as the "New HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for accounting periods on or after January 1, 2005. The application of the new HKFRS has resulted in a charge in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates and jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRS has resulted in the following changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and the amounts reported for the prior years are prepared and presented.

HKFRS 3 BUSINESS COMBINATIONS

In the current year, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after January 1, 2005. The principal effects of the application of HKFRS to the Group are summarised below.

Goodwill

In previous years, goodwill arising on acquisitions prior to January 1, 2001 was held in reserves, and goodwill arising on acquisitions on or after 1 January, 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves of Rmb352,860,000, net of negative goodwill of Rmb12,655,000, has been transferred to the Group's retained profits on January 1, 2005. With respect to goodwill previously capitalised on the balance sheet, the Group has applied the relevant transitional provisions in HKFRS 3 and eliminated the carrying amount of the related accumulated amortisation of Rmb41,121,000 on January 1, 2005 with a corresponding decrease in the cost of goodwill (see Note 19). The Group has discontinued amortising such goodwill from January 1, 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after January 1, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, amortisation of goodwill has been charged in the current year. Comparative figures for 2005 have not been restated.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to January 1, 2001 was held in reserves. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill on January 1, 2005 of Rmb12,655,000 previously recorded in goodwill reserves. The amount has been transferred to retained profits as disclosed above.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

FINANCIAL INSTRUMENTS

In the current year, the Group has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after January 1, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

By December 31, 2004, the Group classified and measured its investments in debt and equity securities in accordance with the alternative treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as “trading securities” or “non-trading securities” as appropriate. Both “trading securities” and “non-trading securities” are measured at fair value. Unrealised gains or losses of “trading securities” are reported in profit or loss for the period in which gains or losses arise. Unrealised gains or losses of “non-trading securities” are reported in equity until the securities are sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for that period. From January 1, 2005 onwards, the Group has classified and measured its investments in debt and equity securities in accordance with HKAS 39 either as financial assets are classified as “financial assets at fair value through profit or loss” or “available-for-sale financial assets”, as appropriate. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market are carried at cost less impairment when their fair value cannot be reliably measured. As a result of this change in accounting policy, the long term investments and short term investments amounted to Rmb1,000,000 and 676,447,000 have been reclassified to available-for-sale investments and investment held for trading respectively. Comparative figures have not been reclassified to confrom with the current year’s presentation.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

OWNER-OCCUPIED LEASEHOLD INTEREST IN LAND

In previous years, land use rights were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, the land and building elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 3 for the financial impact).

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior years are as follows:

	2005 RMB'000	2004 RMB'000
Non-amortisation of goodwill of subsidiaries and increase in profit for the year	**12,245**	—

The cumulative effects of the application of the new HKFRSs on December 31, 2005 and January 1, 2005 are summarised below:

	As at December 31, 2004 (originally stated) RMB'000	Adjustments RMB'000	As at December 31, 2004 (restated) RMB'000	Adjustments RMB'000	As at January 1, 2005 (restated) RMB'000
Balance sheet items					
Impact of HKAS 17:					
Property, plant and equipment	12,988,659	(423,724)	12,564,935	—	12,564,935
Prepaid lease payments	—	423,724	423,724	—	423,724
Total effects on assets	12,988,659	—	12,988,659	—	12,988,659

The financial effects of the application of the new HKFRS to the Group's equity at January 1, 2005 are summarised as below:

	As opening stated Rmb'000	**Adjustment** Rmb'000	**As restated** Rmb'000
Retained profits	1,108,364	(352,860)	755,504
Goodwill reserve	(352,860)	352,860	—
	755,504	—	755,504

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Continued)

The HKICPA has issued the following new Standards, amendments and interpretations ("INT") that are not effective for the year ended and as at December 31, 2005. The Group has already commenced an assessment of the impact of these new HKFRSs to ascertain the effect of the results of operations and financial statements.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	New investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of ForecastIntragroupTransactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HK (IFRIC) – Int 4	Determining Whether an Arrangement Contains a Lease[2]
HK (IFRIC) – Int 5	Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK (IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment[3]
HK (IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on of after January 1, 2007
2 Effective for annual periods beginning on of after January 1, 2006
3 Effective for annual periods beginning on of after December 1, 2005
4 Effective for annual periods beginning on of after March 1, 2006

4. CHANGES OF ACCOUNTING ESTIMATE

Change of depreciation rate in the year

In the previous years, depreciation on expressway and bridges was calculated to write off the cost over their estimated useful lives using a method whereby the aggregate annual depreciation amounts, compounded at average rates ranging from 6.11% to 8.77% per annum up to the expiry of the underlying 30-year expressway concession period, will be equal to the total construction costs of the expressways and bridges. The aforementioned average rates are based on the tracffic volumes over the 30-year expressway concession period. This method is more commonly referred to as the "Unit-of-usage" method.

With effect from January 1, 2005, expressways and bridges are depreciated by straight-line method in the residual years, which is a change in accounting estimate, and considered by the directors to be suitable in the future. Due to this change of accounting estimate, the carrying value of property, plant and equipment and the profit before tax have been decreased, while the depreciation expense at an amount of Rmb269,319,000 has been increased for the year ended December 31, 2005. Accordingly, profit attributable to equity holders of the Company has been decreased by Rmb164,407,000 for the year ended December 31, 2005.

5. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on 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 of Hong Kong Limited and by the Hong Kong Companies Ordinance.

BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

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.

GOODWILL

Goodwill arising on acquisitions prior to January 1, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before January 1, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions on or after January 1, 2001, the Group has discontinued amortisation from January 1, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOODWILL (Continued)

Goodwill arising on acquisitions on or after January 1,2005

Goodwill arising on an acquisition of a subsidiary 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 subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

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

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

A discount on acquisition arising on an acquisition of a subsidiary for which an agreement date is on or after January 1, 2005 represents the excess of the net fair value of the Group's interest in an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is, after reassessment, recognised immediately in profit or loss.

As explained in note 3 above, all negative goodwill as at January 1, 2005 has been derecognised with a corresponding adjustment to the Group's retained profits.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS IN ASSOCIATES

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 profit or loss and of changes in equity 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 (which includes any long-term interests that, in substance, form part of the Group's net investment in the 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.

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.

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 profit or loss and of changes in equity 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, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly-controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION

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

Toll fee income from the operation of toll roads is recognised when the tolls are received and receivable.

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income 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 estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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 periods 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.

In the current year, depreciation of expressway and bridges is calculated to write off the cost thereof over their estimated useful lives using the straight line method in the remaining concession period using the straigh-line method. Details of the change of depreciation rate in this year is set out in note 4.

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 of their estimated residual value, using the straight-line method, at the following rates per annum:

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT (Continued)

	Estimated useful life	Annual depreciation rate
Toll stations and ancillary facilities	30 years	3.2%
Communications and signalling equipment	5 years	19.4%
Motor vehicles	8 years	12.1%
Machinery and equipment	5-8 years	12.1-19.4%

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 related borrowed funds, during the period of construction, installation and testing. Construction in progress is reclassified to other items of property, plant and equipment and commence depreciation when completed and ready for 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.

PREPAID LEASE PAYMENTS

Payments for obtaining land use rights are considered as prepaid lease payment under operating lease and charged to the consolidated income statement over the period of the right using the straight line method.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

RETIREMENT BENEFIT COSTS

Payments to state-managed retirement benefit schemes are charged as an expense as they fall due.

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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of the assets to determine whether there is any 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.

INVENTORIES

Inventories, representing goods 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 at fair value through profit or loss 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.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets and bank balances with fixed or determinable payments that are not quoted in an active market. Loans and receivable, include loan to amounts due from associates and other receivables. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

Investments

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

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset 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 losses will not reverse in profit or loss in subsequent periods.

Investment held for trading is measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are included in profit or loss for the period.

5. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and is subject to an insignificant risk of changes in value.

Financial liability and equity

Financial liabilities and equity instruments 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 investments are set out below:

Financial liabilities

Financial liabilities include trade payables, other payables, amounts due to a jointly-controlled entity, dividend payable, interest bearing bank and other loans, and long term bonds are initially measured at fair value and are subsequently measured at amortised cost using effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceed received, not of direct issue costs.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in Note 5, management had made the following judgments that have the most significant effect on the amounts recognised in the financial statements.

Loans and receivables

Note 5 describes that loans and receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

6. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

In making the judgement, management considered detailed procedures have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to trade receivables. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the ageing status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability. Specific allowance is only made for trade receivables that are unlikely to be collected. In this regard, the directors of the Company are satisfied that this risk is minimal and adequate allowance for doubtful debts has been made in the Financial Statements in light of the historical records of the Group and the circumstances of the toll road operation in the PRC.

Depreciation

The management exercises their judgement in estimating the useful lives of the property, plant and equipment as set out in Note 5.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using straight line method.

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.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, investments held for trading, borrowings, loan and other receivables, trade and other payables, and cash and bank balances. 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

Fair value interest rate risk

Interest bearing financial assets included bank deposits and entrusted loans which are short term in nature and is therefore not exposed to fair value interest rate risk.

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings and long term bonds (see note 32 and 33 for details of these borrowings).

The Group currently does not have an interest rate hedging policy as the management considered the Group did not exposed to significant fair value interest rate risk. The management will continue to monitor interest rate exposure and will consider hedging significant foreign currency exposure should the need arises.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

Foreign currency risk refers to the movement in foreign currency exchange rate which will affect the Group's financial result and its cash flow. Although the Group had long term borrowing denominated in United States Dollar, the directors are closely monitor the position and will take immediate response to hedge the risk whenever necessary. Further, the Group carries out majority of its transactions in RMB and accordingly, the Group's operation is not exposed to any significant foreign currency risk.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at December 31, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The credit risk on bank balances is minimal because the counterparties are banks with high credit ratings.

The Group's concentration of credit risk by geographical locations is mainly in PRC.

Liquidity risk

Most of the bank balances and cash at December 31, 2005 were denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the Government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

The Group closely monitors its cash position from its operation and the directors consider that the Group has sufficient liquid assets generated from its operations and sufficient available undrawn long term and short term borrowing facilities to enable the Group to meet in full its financial obligations as they fall due for the foreseeable future. Although the Group had net current liabilities at the balance sheet date, the Group has well managed the liquidity risk.

8. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, the Group has determined to use business segments as its primary segment reporting format. During the year, the entire turnover and contribution to profit from operating activities of the Group were derived from the Zhejiang Province in 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 servicing, automobile servicing, as well as the operation of oil 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 the maintenance of buildings, equipment and facilities provided to third parties.

8. SEGMENT INFORMATION (Continued)

	Toll operation		Service area businesses		Advertising business		Road maintenance		Others		Consolidated	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
Segment revenue:												
Revenue, net of revenue taxes	3,182,807	2,906,473	225,702	179,563	45,374	38,864	2,502	7,093	—	—	3,456,385	3,131,993
Other income	100,122	30,549	82,996	9,522	2,829	1,575	—	—	—	—	185,947	41,646
Total revenue	3,282,929	2,937,022	308,698	189,085	48,203	40,439	2,502	7,093	—	—	3,642,332	3,173,639
Segment results	2,255,306	1,925,656	71,225	38,000	15,130	15,465	842	(5,166)	—	—	2,342,503	1,973,955
Finance costs	—	—	—				—				(101,343)	(103,457)
Share of (losses) profits of associates	(2,786)	—	11,407	7,947	—	—	—	—	(1,404)	1,139	7,217	9,086
Share of profit of a jointly-controlled entity	16,285	19,622	—	—	—	—	—	—	—	—	16,285	19,622
Profit before tax											2,264,662	1,899,206
Income tax expense											(692,366)	(542,749)
Profit for the year											1,572,296	1,356,457
Segment assets	15,811,577	14,858,820	128,521	175,910	64,780	60,005	—	71,829	—	—	16,004,878	15,166,564
Interests in associates	35,000	—	146,677	144,120	—	—	—	—	45,194	32,624	226,871	176,744
Interest in a jointly-controlled entity	79,907	79,812	—	—	—	—	—	—	—	—	79,907	79,812
Deferred tax assets												42,529
Total assets											16,311,656	15,465,649
Segment liabilities	1,061,037	656,693	5,504	83,472	28,978	28,081	—	33,578	—	—	1,095,519	801,824
Bank and other loans											1,434,737	1,443,462
Long term bonds											1,000,000	1,000,000
Dividend payable											33,379	19,070
Deferred tax liabilities											384,153	388,787
Total liabilities											3,947,788	3,653,143
Other segment information:												
Capital expenditure	1,370,356	891,009	14,449	63,007	8,974	14,215	—	1,325	—	—	1,393,779	969,556
Depreciation and amortisation	532,166	313,414	6,781	5,060	4,768	4,069	—	4,284	—	—	543,715	326,827
Loss on derecognition of property, plant and equipment	158	205,095	7	49	353	117	—	—	—	—	518	205,261
Operating lease rentals in respect of land use rights	18,138	17,779	—	—	—	—	—	—	—	—	18,138	17,779

9. REVENUE AND OTHER INCOME

Revenue mainly represents toll income from the operation of expressways, the operation of service area business, the provision of advertising services, and the provision of road maintenance services, net of relevant revenue taxes.

An analysis of revenue and other operating income is as follows:

	2005 Rmb'000	2004 Rmb'000
Toll operation income	**3,350,670**	3,066,954
Service area businesses income	**230,183**	183,637
Advertising business income	**48,045**	41,159
Road maintenance income	**2,568**	7,244
	3,631,466	3,298,994
Loss: Revenue taxes	**(175,081)**	(167,001)
Revenue	**3,456,385**	3,131,993
Gain (loss) on disposal of investments held for trading/investments/unrealised loss on investments	**13,795**	(23,400)
Gain on fair value changes on investments held for trading	**20,187**	(12,758)
Interest income	**40,151**	12,514
Rental income	**45,341**	22,941
Trailer income	**20,318**	18,352
Exchange gains, net	**18,461**	220
Others	**27,694**	23,777
Other income	**185,947**	41,646
	3,642,332	3,173,639

The Company and its subsidiaries are subject to the business tax, levied at 3% and 5% on toll income and 3% to 5% on other services income. In addition, the subsidiaries are subject to the following types of revenue taxes and surcharge:

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

– education supplementary tax, levied at 3.5% to 4% of business tax; and

– culture and education fees, levied at 3% on advertising income.

10. FINANCE COSTS

	2005 Rmb'000	2004 Rmb'000
Interest on bank loans wholly repayable within five years	**29,768**	50,253
Interest on other loans	**34,528**	11,804
Interest on bonds	**42,900**	41,400
Total interest	**107,196**	103,457
Less: Interest capitalised	**(5,853)**	–
	101,343	103,457

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5% (2004: 5%) to expenditure on qualifying assets.

11. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2005 Rmb'000	2004 Rmb'000
Depreciation	**535,015**	305,882
Operating lease rentals in respect of:		
-land use rights (including in operating costs)	**18,138**	17,779
Auditors' remuneration	**2,165**	2,167
Staff costs (including directors and supervisors):		
-Wages and salaries	**138,678**	117,979
-Pension scheme contributions	**10,419**	11,228
	149,097	129,207
Amortisation of expressway operating rights*	**8,700**	8,700
Amortisation of goodwill**	**—**	12,245
Loss on derecognition of property, plant and equipment	**518**	205,261
Share of tax of associates (included in share of profits of associates)	**6,717**	5,930
Share of tax of a jointly-controlled entity (included in share of profit of a jointly-controlled entity)	**8,181**	5,845

* The amortisation of expressway operating rights for the year is included in "Operating costs" in the consolidated income statement.

** The amortisation of goodwill for the year is included in "Other expenses" in the consolidated income statement.

12. INCOME TAX EXPENSE

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

The Group was subject to enterprise income tax ("EIT") levied at a rate of 33% of taxable income based on income for financial reporting purposes prepared in accordance with the laws and regulations in the PRC.

	2005 Rmb'000	2004 Rmb'000
Group		
Tax charged	654,471	556,566
Tax refunded	—	(34,372)
	654,471	522,194
Deferred (note 25)	37,895	20,555
Tax charge for the year	692,366	542,749

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

	2005		2004	
	Rmb'000	%	Rmb'000	%
Profit before tax	2,264,662		1,899,206	
Tax at the statutory tax rate	747,338	33.0	626,738	33.0
Tax effect of share of profits of associates	(2,382)	(0.1)	(2,998)	(0.2)
Tax effect of share of profit of a jointly-controlled entity	(5,374)	(0.2)	(6,475)	(0.3)
Tax refunded	—	—	(34,372)	(1.8)
Tax exemption of a subsidiary	(51,408)	(2.3)	(36,914)	(1.9)
Tax effect of income not subject to tax	(12,337)	(0.5)	(13,451)	(0.7)
Tax effect of expenses not deductible for tax	16,529	0.7	10,221	0.5
Tax charge and effective tax rate	692,366	30.6	542,749	28.6

12. INCOME TAX EXPENSE (Continued)

In 2005, according to the approvals from the Zhejiang Provincial Local Tax Bureau, Zhejiang Shangsan Expressway Co., Ltd. (“Shangsan Co”), one of the Company’s subsidiaries, was entitled to a 30% EIT exemption for the year ended December 31, 2005 under the category of “Enterprise providing employment opportunities to redundant workers with a minimum of three-years employment term” as defined in the relevant national tax rules. As a result, the tax exemption for the year ended December 31, 2005 amounted to Rmb51,408,000 has been applied directly to reduce the EIT for the year in 2004. The tax refund received by Shangsan Co in 2004 for the year ended December 31, 2003 amounted to Rmb27,004,000 and a tax exemption for the year ended December 31, 2004 amounted to Rmb36,914,000, respectively.

In 2004, according to the approvals from the Zhejiang Provincial National Tax Bureau, Zhejiang Expressway Investment Development Co., Ltd. (“Development Co”) and Zhejiang Expressway Vehicle Towing and Rescue Service Co., Ltd (“Service Co”), two of the Company’s subsidiaries, were entitled to a 100% EIT exemption for the year ended December 31, 2003 and accordingly received tax refund amounting to Rmb6,554,000 and Rmb814,000, respectively, under the category of “New enterprises providing employment opportunities to redundant urban workers” as defined in the relevant national tax rules.

13. DIRECTORS AND SUPERVISORS' REMUNERATION

The emoluments paid or payable to each of the 9 (2004: 9) directors were as follow:

	Geng Xiaoping Rmb'000	Fang Yunti Rmb'000	Xuan Daoguang Rmb'000	Zhang Jingzhong Rmb'000	Zhang Luyun Rmb'000	Zhang Yang Rmb'000	Tung* Cheechen Rmb'000	Zhang* Junsheng Rmb'000	Zhang* Liping Rmb'000	Ma Kehua Rmb'000	Fang Zhexing Rmb'000	Zhen Qihua Rmb'000	Jiang Shaozhong Rmb'000	Sun Xiaoxia Rmb'000	Total Rmb'000
2005															
Salaries, allowances and benefits in kind	606	461	403	252	4	3	152	33	151	3	4	3	3	—	2,078
Bonuses paid and payble	265	203	173	111	—	—	—	—	—	—	—	—	—	—	752
Pension scheme contributions	11	11	8	—	—	—	—	—	—	—	—	—	—	—	30
Total emoluments	882	675	584	363	4	3	152	33	151	3	4	3	3	—	2,860
2004															
Salaries, allowances and benefits in kind	533	402	360	207	4	3	152	33	152	3	3	1	3	—	1,856
Bonuses paid and payable	233	177	154	96	—	—	—	—	—	—	—	—	—	—	660
Pension scheme contributions	11	10	7	—	—	—	—	—	—	—	—	—	—	—	28
Total emoluments	777	589	521	303	4	3	152	33	152	3	3	1	3	—	2,544

* Independent non-executive directors

The emoluments of each of the directors for both years were below HK$1,000,000 (equivalent to Rmb1,040,000). Bonuses to directors are determined by the Remuneration Committee of the Company, comprises three independent non-executive directors.

There was no arrangement under which a Director or a Supervisor waived or agreed to waive any remuneration during the year.

14. FIVE HIGHEST PAID EMPLOYEES

	2005 Rmb'000	2004 Rmb'000
Salaries, allowances and benefits in kind	**2,056**	1,747
Bonuses paid and payable	**899**	765
Pension scheme contributions	**41**	39
	2,996	2,551

The five highest paid employees during the year included four (2004: four) directors, details of whose remuneration are set out in note 13 above, as well as a non-director employee, whose remuneration for the year was less than HK$1,000,000.

15. DIVIDENDS

The final dividend of Rmb15 cents per share has been proposed by the directors and is subject to approval by the shareholders in annual general meeting.

16. EARNINGS PER SHARE

The calculation of basic earnings per share is based on profit attributable to equity holders of the Company for the year of Rmb1,431,192,000 (2004: Rmb1,225,699,000) and the 4,343,114,500 ordinary shares (2004: 4,343,114,500 ordinary shares) in issue during the year.

There were no potentially dilutive ordinary shares in the years ended December 31, 2005 and 2004.

As a result of the adoption of new and revised HKFRS (note 3), the earnings per share for the year ended December 31, 2005 would increase by Rmb28.22 cents to Rmb32.95 cents.

There was no impact to the earnings per share for the year ended December 31, 2004.

17. PROPERTY, PLANT AND EQUIPMENT

	Land Rmb'000	Expressways and bridges Rmb'000	Toll stations and ancillary facilities Rmb'000	Communications and signalling equipment Rmb'000	Motor vehicles Rmb'000	Machinery and equipment Rmb'000	Construction in progress Rmb'000	Total Rmb'000
Cost:								
At January 1 2004								
As originally stated	531,810	11,686,549	357,428	213,511	107,833	189,860	543,267	13,630,258
Effect of change in								
accounting policy	(531,810)		(3,151)					(534,961)
At January 1 2004 as restated	—	11,686,549	354,277	213,511	107,833	189,860	543,267	13,095,297
Additions	—	5,123	5,808	17,532	17,685	18,405	905,003	969,556
Transfers	—	40,041	15,608	57,515	—	399	(113,563)	—
Reclassifications	—	—	—	42,132	—	(42,132)	—	—
Disposals	—	(212,607)	(4,029)	(7,938)	(1,945)	(2,387)	(49)	(228,955)
At beginning of 2005:	—	11,519,106	371,664	322,752	123,573	164,145	1,334,658	13,835,898
Additions	—	6,939	6,149	13,431	13,589	39,597	1,314,074	1,393,779
Transfers	—	1,682,484	11,817	166	—	3,940	(1,698,407)	—
Reclassifications	—	—	37	4,274	450	(4,761)	—	—
Disposals	—	—	—	(946)	(2,860)	—	—	(3,806)
At December 31, 2005	—	13,208,529	389,667	339,677	134,752	202,921	950,325	15,225,871
Accumulated depreciation:								
At January 1 2004								
As originally stated	105,464	719,723	53,795	87,142	58,678	67,840	—	1,092,642
Effect of change in								
accounting policy	(105,464)	—	(611)	—	—	—	—	(106,075)
At January 1 2004 as restated	—	719,723	53,184	87,142	58,678	67,840	—	986,567
Depreciation provided during the year	—	174,256	12,103	93,702	11,244	14,577	—	305,882
Reclassifications	—	—	—	10,319	—	(10,319)	—	—
Disposals	—	(15,833)	(351)	(2,320)	(1,576)	(1,406)	—	(21,486)
At beginning of 2005	—	878,146	64,936	188,843	68,346	70,692	—	1,270,963
Depreciation provided during the year	—	455,862	12,393	40,401	11,128	15,231	—	535,015
Reclassifications	—	—	(275)	124	4	147	—	—
Disposals	—	—	—	(493)	(2,219)	—	—	(2,712)
At December 31, 2005	—	1,334,008	77,054	228,875	77,259	86,070	—	1,803,266
Carrying values:								
At December 31, 2005	—	11,874,521	312,613	110,802	57,493	116,851	950,325	13,422,605
At December 31, 2004	—	10,640,960	306,728	133,909	55,227	93,453	1,334,658	12,564,935

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

18. PREPAID LEASE PAYMENTS

	2005 Rmb'000	2004 Rmb'000
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong:		
Medium-term lease	**405,586**	423,724
Analysis for reporting purposes as:		
Current asset	**18,138**	18,138
Non-current asset	**387,448**	405,586
	405,586	423,724

The amount represents the prepayment of rentals under operating lease for "land use rights" situated in the PRC for a period of 30 years.

19. GOODWILL

The amounts of the goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Rmb'000
Cost:	
At January 1, 2004, and January 1, 2005	126,593
Elimination of accumulated amortisation upon the application of HKFRS 3 (note 2)	(41,121)
At January 1, 2005 as restated and at December 31, 2005	85,472
Accumulated amortisation:	
At January 1, 2004	28,876
Provided during the year	12,245
At January 1, 2005	41,121
Elimination of accumulated amortisation upon the application of HKFRS 3 (note 2)	(41,121)
At December 31, 2005	—
CARRYING VALUES:	
At December 31, 2005	85,472
At December 31, 2004	85,472

19. GOODWILL (Continued)

Until 31 December, 2004, goodwill was amortised over its estimated useful life of thirty years.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

During the year ended December 31 2005, management of the Group determines that there are no impairment of goodwill on investments in subsidiaries.

The recoverable amount of the subsidiaries, namely Zhejiang Jiaxing Expressway Co., Ltd. and Zhejiang Shangsan Expressway Co., Ltd., which are engaged in toll operation. Determined from value in use calculations of the respective subsidiaries. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to toll revenue and direct costs during the period. To calculate this, cash flow projections are 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.

20. INTERESTS IN ASSOCIATES

	2005 Rmb'000	2004 Rmb'000
Unlisted investments, at cost	**189,471**	135,971
Share of post-acquisition profits, net of dividend received	**36,535**	42,683
	226,006	178,654
Amount due from(to) an associate	**865**	(1,910)
	226,871	176,744

The amount due from (to) an associate is unsecured, interest-free and repayable within one year.

20. INTERESTS IN ASSOCIATES (Continued)

Particulars of the associates as at December 31, 2005 are as follows:

Name	Form of business structure	Place of registration and operations	Percentage of equity interest attributable to the Group 2005	2004	Principal activities
			%	%	
Zhejiang Expressway Petroleum Development Co., Ltd.	Corporate	The PRC	50	50	Construction and operation of gas stations and the sale of petroleum products
JoinHands Technology Co., Ltd.	Corporate	The PRC	27.58	27.58	Providing logistic management and anti-counterfeiting systems in the PRC
Zhejiang Concord Property Investment Co., Ltd.	Corporate	The PRC	22.95	22.95	Investment and construction on real estates
Hangzhou Yuhang Communication Time Plaza Co., Ltd.	Corporate	The PRC	15.3	15.3	Investment and construction on real estates
Zhejiang Jiashao Expressway Co., Ltd.	Corporate	The PRC	35	—	Construction and Management of the Jiashao Expressway

The directors consider the carrying amount of amount due from (to) an associate approximates its fair value.

21. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	2005 Rmb'000	2004 Rmb'000
Unlisted investments, at cost	**65,000**	65,000
Share of post-acquisition profits, net of dividend received	**20,202**	18,925
	85,202	83,925
Amount due to a jointly-controlled entity	**(5,295)**	(4,113)
	79,907	79,812

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

The directors consider the carrying amount of amount due to a jointly-controlled entity approximates its fair value.

Particulars of the jointly-controlled entity as at December 31, 2005, which is directly held by the Group, are as follows:

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

22. AVAILABLE-FOR-SALE INVESTMENTS

	2005 Rmb'000	2004 Rmb'000
Unlisted equity investments, at cost	**1,000**	1,000

The above unlisted 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.

23. LONG/SHORT TERM INVESTMENTS

At December 31, 2004, long term investments of Rmb1,000,000 which were stated at cost and short term investments of Rmb76,447,000 which were stated at market value were reclassified as available-for-sale investments and investments held for trading respectively at January 1, 2005.

24. EXPRESSWAY OPERATING RIGHTS

	Rmb'000
Cost:	
At January 1, 2004, December 31, 2004 and December 31, 2005	261,000
Accumulated amortisation:	
At January 1, 2004	55,055
Provided during the year	8,700
At December 31, 2004	63,755
Provided during the year	8,700
At December 31, 2005	72,455
Net book value:	
At December 31, 2005	188,545
At December 31, 2004	197,245

The above expressway operating rights were granted by the Zhejiang Provincial Government to the Group for a period of 30 years. During the 30-year expressway concession 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.

25. DEFERRED TAXATION

The movement in deferred taxation during the year is as follows:

	Non-deductible loss on derecognition of property, plant and equipment Rmb'000	Restatement of investments held for trading Rmb'000	Straight-line method tax depreciation Rmb'000	Total Rmb'000
Group				
At January 1, 2004	—	8,399	317,304	325,703
Deferred tax charged (credited) to the income statement during the year (note 12)	(38,319)	(12,609)	71,483	20,555
At December 31, 2004	(38,319)	(4,210)	388,787	346,258
Deferred tax charged (credited) to the income statement during the year (note 12)	38,319	7,176	(7,600)	37,895
At December 31, 2005	—	2,966	381,187	384,153

The following is the analysis of the deferred tax balance (after offset) for financial report purpose:

	2005 Rmb'000	2004 Rmb'000
Deferred tax assets	—	42,529
Deferred tax liabilities	384,153	388,787

The Group has no significant potential deferred tax liabilities for which provision has not been made.

26. LOAN TO AN ASSOCIATE

Loan to an associate was unsecured, carried fixed interest at 10% per annum and fully repaid on February 1, 2006.

The directors consider the carrying value of loan to an associate approximates its fair value.

27. TRADE RECEIVABLES

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

	2005 Rmb'000	2004 Rmb'000
Within 1 year	**20,470**	25,636
1 to 2 years	**1,274**	933
	21,744	26,569

The Group allows an average credit period of approximately 180 days to its trade customers.

The directors consider the carrying value of trade receivables approximates its fair value.

28. OTHER RECEIVABLES

	2005 Rmb'000	2004 Rmb'000
Prepayments	**21,793**	26,989
Entrusted loan to a related party (note)	**260,000**	260,000
Entrusted loan to a third party (note)	**–**	10,000
Deposits and other debtors	**34,445**	84,028
	316,238	381,017

Notes:

The amounts represented indirect loans to entities through an authorised lending institution. Interest income from such loans is accrued at the interest rate specified in the loan agreement. The entrusted loans carry fixed interest rate of 6.55% per annum are receivable within one year therefore it is presented under current assets.

The directors consider the carrying value of other receivables approximates its fair value.

29. INVESTMENTS HELD FOR TRADING

	2005 Rmb'000	2004 Rmb'000
Listed in the PRC, at market value:		
Government bonds	**588,137**	617,381
Close-end equity funds	**23,960**	59,066
	612,097	676,447

The fair values of the above held for trading investments are determined based on the quoted market bid price at year end date.

At December 31, 2005, the Government bonds (being the treasury bonds issued by the PRC Government) of an approximate aggregate amount of RMB587 million were held in the Company's investment account with Kinghing Securities Co., Ltd. ("Kinghing Securities"). Prior to the date of the Agreements (details set out in note 44), Kinghing Securities had pledged the Government bonds as security for certain third party repo trading transactions entered into by it through the Shanghai branch of the PRC Securities Registration and Clearing Co., Ltd. without prior notification to nor consent from the Company. Subsequent to the pledging of the Government bonds, Kinghing Trust Investment Co., Ltd. ("Kinghing Investment"), the largest equity owner of Kinghing Securities at the relevant time, had misappropriated funds of Kinghing Securities such that Kinghing Securities currently does not have sufficient funds to settle the relevant repo trading transactions, and as a result, the security over the Government bonds may be enforced. In light of the above circumstances, the Company has decided to participate in the restructuring of Kinghing Securities, through which additional RMB600 million capital contribution will be injected by Shangsan Co (a subsidiary of the Company) into Kinghing Securities, to enable Kinghing Securities to settle the repo trading transactions and to obtain the release of the security over the Government bonds beneficially owned by the Company. The Rmb 600 million capital injection to Kinghing Securities by Shangsan Co will be financed by internal funds of Shangsan Co. As of the date of this report such pledge on the Government bonds has been released.

30. CASH AND BANK BALANCES

	2005 Rmb'000	2004 Rmb'000
Cash and bank balances	**569,431**	538,079
Time deposits with original maturity of less than three months when acquired	**154,082**	183,920
Time deposits with original maturity over three months when acquired	**105,632**	81,740
	829,145	803,739

Time deposits carry fixed interest rates of 1.5-2.5%. The fair value of bank deposits at December 31, 2005 approximates to the corresponding carrying amount.

31. TRADE PAYABLES

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

	2005 Rmb'000	2004 Rmb'000
Within 1 year	**368,672**	262,085
1 to 2 years	**26,786**	10,037
2 to 3 years	**3,211**	20,930
Over 3 years	**3,552**	4,161
	402,221	297,213

The directors consider the carrying value of trade payables approximates its fair value.

32. OTHER PAYABLES AND ACCRUALS

	2005 Rmb'000	2004 Rmb'000
Accruals	**80,277**	82,022
Other liabilities	**232,444**	198,014
Amounts due to related parties (note 35)	**12,151**	12,151
Amount due to ultimate holding company (note 36)	**2,599**	2,599
	327,471	294,786

The directors consider the carrying value of other payables and accruals approximates its carrying value.

33. INTEREST-BEARING BANK AND OTHER LOANS

	2005 Rmb'000	2004 Rmb'000
Bank loans, unsecured	**630,000**	570,000
Other loans, unsecured	**804,737**	873,462
	1,434,737	1,443,462
Bank loans repayable:		
Within one year	**630,000**	570,000
Other loans repayable:		
Within one year	**256,540**	217,892
In the second year	**87,871**	89,943
In the third to fifth years, inclusive	**289,744**	287,904
Beyond five years	**170,582**	277,723
	804,737	873,462
	1,434,737	1,443,462
Portion classified as current liabilities	**(886,539)**	(787,892)
Long term portion	**548,198**	655,570

The bank loans are unsecured and carry fixed interest at rates ranging from 4.7% to 5.58% per annum.

The other loans are unsecured and carry fixed interest at rates ranging from 3.00% to 4.59% per annum and repayable by semi-annual instalment, with the last instalment to be fall due in October 2015.

The directors consider that the carry amount of the bank loans approximates the fair value.

The bank and other loans of the Group that are denominated in currency other than RMB are USD90,721,000 (2004: USD96,621,000).

34. LONG TERM BONDS

	2005 Rmb'000	2004 Rmb'000
Long term bonds - listed in the PRC	**1,000,000**	1,000,000

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

The fair value of the long term bonds estimated by discounting their future cash flows at the prevailing market borrowing rates at the balance sheet date for similar borrowings of 5% were approximate to its carrying amount.

35. AMOUNTS DUE TO RELATED PARTIES

The amounts due to related parties are unsecured, interest-free and repayable on demand.

The directors consider the carrying value of amounts due to related parties approximates its fair value.

36. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount due to ultimate holding company (i.e. the Communications Investment Group) is unsecured, interest-free and repayable on demand.

The directors consider the carrying value of amount due to ultimate holding company approximates its fair value.

37. ISSUED CAPITAL

	2005 Number of shares	2004 Number of shares	**2005 Rmb'000**	2004 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 issued 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, and were admitted to the Official List on May 5, 2000. Dealings in the H Shares on the London Stock Exchange commenced on the same day.

On February 27, 2001, the trading of the H Shares of the Company commenced on the Berlin Stock Exchange following a secondary listing on the Unofficial Regulated Market of the exchange.

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.

38. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before tax to net cash inflow from operating activities:

	2005 Rmb'000	2004 Rmb'000 (restated)
Profit before tax	**2,264,662**	1,899,206
Adjustments for:		
Share of profits of associates	**(7,217)**	(9,086)
Share of profit of a jointly-controlled entity	**(16,285)**	(19,622)
Depreciation	**535,015**	305,882
Operating lease rentals in respect of land use rights	**18,138**	17,779
Amortisation of expressway operating rights	**8,700**	8,700
Amortisation of goodwill	**—**	12,245
Interest income	**(40,151)**	(12,514)
Finance costs	**101,343**	103,457
(Gain) loss on investment		
Held for trading/investments	**(20,187)**	12,758
Exchange gains, net	**(18,461)**	(220)
Loss on derecognition of property, plant and equipment	**518**	205,261
Operating cash flows before movements in working capital	**2,826,075**	2,523,846
Increase in inventories	**(30)**	(3,360)
Decrease (increase) in trade receivables	**4,825**	(4,798)
Increase in other receivables	**(258,672)**	(329,548)
(Increase) decrease in amount due from an associate	**(2,775)**	1,921
Increase (decrease) in trade payables	**49,917**	(82,401)
Increase (decrease) in other taxes payable	**7,436**	(3,603)
(Decrease) increase in other payables and accruals	**(31,606)**	43,712
Increase in amount due to a jointly-controlled entity	**1,182**	2,364
Cash generated from operations	**2,596,352**	2,148,133
Interest paid	**(107,196)**	(112,240)
Income tax paid	**(505,905)**	(526,560)
Net cash from operating activities	**1,983,251**	1,509,333

39. RETIREMENT BENEFIT SCHEMES

The employees of the Group are members of the state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a certain percentage of their payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

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

40. COMMITMENTS

CAPITAL COMMITMENTS

	2005 Rmb'000	2004 Rmb'000
Contracted, but not provided for:		
– Construction of expressways	**1,458,933**	2,078,001
– Purchase of machinery	**–**	–
– Proposed investments in Shangsan Co.	**485,000**	485,000
– Proposed investments in Jiashao Co	**1,110,375**	–
– Decoration of office	**–**	2,693
– Renovation of a service area	**–**	1,371
	3,054,308	2,567,065
Authorised, but not contracted for:		
– Purchase of machinery	**87,250**	72,459
– Construction of expressways	**945,277**	1,592,196
	4,086,835	4,231,720

41. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at the balance sheet date.

42. OPERATING LEASE ARRANGEMENTS

The Group as lessor

The Group lease their oil stations and cables under operating lease arrangements, with leases negotiated for terms ranging from five to twenty five years. Rental receivables comprise a base amount plus an incremental contingent rental. Contingent rentals are based on sales volume of the lessee. Contingent rental income for the year ended December 31, 2005 amounted to Rmb 11,723,000 (2004: Nil).

As at December 31, 2005, the Group had total future minimum lease rental receivables under non-cancelable operating leases falling due as follows:

	2005 Rmb'000	2004 Rmb'000
Within one year	**19,395**	8,912
In the second to fifth years, inclusive	**43,728**	13,764
Beyond five years	**28,659**	30,162
	91,782	52,838

43. RELATED PARTY TRANSACTIONS

The following are the related party transactions in the daily operating activities of the Group.

(a) On June 20, 2005, the Group signed a loan contract with the limitation of Rmb50,000,000 with Huaxia Bank Hangzhou Gaoxin Branch to provide guarantee for the liabilities of the Zhejiang Expressway Investment Development Co.Ltd from March 31, 2005 to March 31, 2006. By December 31, 2005, the loan balance was Rmb 50,000,000; On November 18, 2005, the group signed a loan contract with the limitation of Rmb150,000,000 to provide guarantee for the liabilities of the Zhejiang Expressway Investment Co.Ltd from November 18, 2005 to November 18, 2005. By December 31, 2005, the loan balance was Rmb80,000,000.

(b) On November 17, 2005, the Group signed an entrusted loan contract with Zhejiang Jinji Property Co. Ltd ("Jinji Co"), a subsidiary of the Zhejiang Communication Investment Group Co.,Ltd. According to the contract, the bank agreed to provide a half-year loan of Rmb260,000,000 to Jingji Co. on behalf of the group. The rate of the loan was 6.55% for the half year. The loan was secured by the Zhejiang Communication Investment Group Co.,Ltd.

(c) According to decisions of the temporary shareholder's conference of Zhejiang Expressway Investment Development Co. Ltd on December 30, 2004, the company entrusted China Guangda Bank Hangzhou Zhaohui branch to provide a loan of Rmb46,000,000 to the Zhejiang Concord Property Investment Co. Ltd, from January 6, 2005 to January 6, 2006 with a rate of 10% per annum. The loan was paid back on January 6, 2006; According to the temporary shareholder's conference of Zhejiang expressway investment Development Co. Ltd on January 27, 2005, the company entrusted China Guangda Bank Hangzhou Zhaohui branch to provide a loan of Rmb70,000,000 to the Zhejiang Concord Property Investment Co. Ltd, from February 1, 2005 to February 1, 2006 with a rate of 10% per annum. The loan was paid back on January 24, 2006. According to the temporary shareholder's conference of Zhejiang Expressway Investment Development Co. Ltd on May 30, 2005, the company entrusted China Guangda Bank Hangzhou Zhaohui branch to provide a loan of Rmb100,000,000 to Zhejiang Concord Property Investment Co. Ltd from July 1, 2005 to December 30, 2005. The loan was paid back on December 30, 2005.

43. RELATED PARTY TRANSACTIONS (Continued)

(d) On December 1, 2005, the Zhejiang Expressway Investment Development Co. Ltd signed the "Huhangyong, Shangsan service area consignment operating contract" with the Zhejiang Expressway Petroleum Development Co. Ltd. The contract is as follows: the operating right of service areas for Huhangyong and Shangsan are consigned to the Zhejiang Expressway Petroleum Development Co. Ltd. The contract was effective for the service area of Jiaxin, Shaoxin, Yuyao, Xinchang, Tiantai from January 1, 2004 and from January 1, 2006 for the service area of Shengzhou. The contract will be applicable for the service area of Changan from December 30, 2008 after its completion which is now still under construction. Moreover, the operating right for the service area of Xinchang is now consigned to SINOPEC Zhejiang Shaoxin petroleum branch for the time being.

(e) The Group had loan advanced to an associate during the year ended December 31, 2005. Details of the advance are set out in not 26.

According to the above contracts, the receivable due of the entrusted operation income from service area of Shaoxin, Yuyao, Jiaxin, Xinchang, Tiantai was Rmb29,782,000 by the year end 2005.

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 Communication, Investment Group which is controlled by the PRC government. Apart from the transactions with the Communications Investment Group and other related parties, 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 deposits 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 view of the Group's toll 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.

44. POST BALANCE SHEET EVENT

On April 20, 2006, Shangsan Co, a subsidiary of the Company, entered into the several agreements (the "Agreements") to acquire in aggregate a 70.46% equity interest (the "Acquisitions") in Kinghing Securities.

As consideration for each of the Acquisitions, Shangsan Co will participate in the restructuring of Kinghing Securities, which will involve, among other things, Shangsan Co injecting in aggregate Rmb600 million new capital into Kinghing Securities for itself and on behalf of certain holders of equity interests in Kinghing Securities in proportion to their respective interests in Kinghing Securities, in several installments by April 30, 2006. Certain of the equity holders in Kinghing Securities have provided undertakings in writing to Shangsan Co to repay Shangsan Co the amounts of capital contributed by Shangsan Co on their behalf respectively, in an aggregate amount of Rmb108 million, by assigning to Shangsan Co their rights to receive future dividends from Kinghing Securities, until their repayment obligations are discharged in full.

Completion of each of the Acquisitions is conditional upon the Agreements being approved by (i) the equity owners of Kinghing Securities as required under its articles of association and (ii) the China Securities Regulatory Commission ("CSRC"). As at the date of this report, the approval from the equity owners of Kinghing Securities has been obtained. The approval from the CSRC is expected to be obtained in May 2006 and completion of the Acquisitions is expected to take place following the obtaining of the CSRC's approval.

In addition, the 11.41% equity interest in Kinghing Securities being acquired by Shangsan Co from Kinghing Investment is subject to the completion of enforcement of the PRC Court Judgment dated April 19, 2006 ordering the transfer of such equity interest from a third party to Kinghing Investment. The enforcement of the PRC Court Judgment is currently expected to be completed on or before May 31, 2006.

Kinghing Securities is a limited liability company established under PRC laws and is licensed to carry out certain securities related businesses.

The Acquisitions contemplated under the Agreements, in aggregate, constitute a discloseable transaction of the Company under the Rules Governing the Listing of Securities on the Stock Exchange Rules.

45. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Particulars of the Company's subsidiaries, all of which are directly held, are as follows:

Names of subsidiaries	Date and place of registration	Registered capital Rmb	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Zhejiang Yuhang Expressway Co., Ltd. ("Yuhang Co")	Note 1	75,223,000	51	–	Construction and management of the Yuhang Section of the Shanghai-Hangzhou Expressway
Zhejiang Jiaxing Expressway Co., Ltd. ("Jiaxing Co")	Note 2	1,859,200,000	99.999454	–	Construction and management of the Jiaxing Section of the Shanghai-Hangzhou Expressway
Zhejiang Shangsan Expressway Co., Ltd. ("Shangsan Co")	Note 3	2,400,000,000	73.625	–	Construction and management of the Shangsan Expressway
Zhejiang Expressway Investment Development Co., Ltd. ("Development Co")	Note 4	80,000,000	51	–	Operation of service areas as well as roadside advertising along the expressways operated by the Group
Zhejiang Expressway Advertising Co., Ltd. ("Advertising Co")	Note 5	1,000,000	–	*35.7	Provision of advertising services
Zhejiang Expressway Vehicle Towing and Rescue Service Co., Ltd. ("Service Co")	Note 6	8,000,000	–	*43.35	Provision of vehicle towing, repair and emergency rescue service
Hangzhou Roadtone Advertising Co., Ltd. ("Roadtone Co")	Note 7	3,000,000	–	*26.01	Provision of advertising services

* 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.

45. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (Continued)

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.

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.

All of the Company's subsidiaries are operating in the PRC.