

Notes to Condensed Financial Statements

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting”.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended December 31, 2005 except as described below.

During the Period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are either effective for accounting periods beginning on or after December 1, 2005 or January 1, 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group:

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC)-Int 8	Scope of HKFRS 2 ³
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁴

¹ Effective for annual periods beginning on or after January 1, 2007

² Effective for annual periods beginning on or after March 1, 2006

³ Effective for annual periods beginning on or after May 1, 2006

⁴ Effective for annual periods beginning on or after June 1, 2006

3. SEGMENT INFORMATION

During the Period, there was no change in the principal activities of the Group. The operating results by principal activities are summarized as follows:

For the six months ended June 30,				
	2006		2005	
	Revenue Rmb'000 Unaudited	Profit Contribution Rmb'000 Unaudited	Revenue Rmb'000 Unaudited	Profit Contribution Rmb'000 Unaudited (Re-stated)
Segment by business activities				
– Toll	1,732,700	1,114,125	1,537,003	1,002,598
– Service areas	429,150	26,862	114,449	10,419
– Advertising	24,554	14,071	22,460	13,626
	<u>2,186,404</u>	<u>1,155,058</u>	<u>1,673,912</u>	<u>1,026,643</u>
Other revenue		55,956		62,221
Administrative expenses		(29,011)		(26,026)
Other operating expenses		(13,878)		(10,015)
Profit from operating activities		<u>1,168,125</u>		<u>1,052,823</u>

No further analysis of the revenue and profit from operating activities by geographical segment was prepared as the revenue and profit from operating activities of the Group were all generated from Zhejiang Province, the People's Republic of China (the "PRC"), during the Period.

4. OTHER INCOME

For the six months ended June 30,		
	2006 Rmb'000 Unaudited	2005 Rmb'000 Unaudited
Profit from short term securities investment	4,775	20,275
Interest income	16,670	12,901
Rental income	7,162	13,348
Trailer income	11,478	9,578
Exchange gain/(loss)	6,556	(778)
Other miscellaneous income	9,315	6,897
Total	<u>55,956</u>	<u>62,221</u>

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5. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging the following:

	For the six months ended June 30,	
	2006 Rmb'000 Unaudited	2005 Rmb'000 Unaudited (Re-stated)
Depreciation	306,918	259,946
Amortization of expressway operating rights	4,350	4,350
Amortization of prepaid lease payments	9,068	9,069
Staff costs	56,318	55,262

6. INCOME TAX EXPENSES

As the Group had no taxable profits in Hong Kong during the Period, no Hong Kong profits tax had been provided.

The Group was subject to Corporate Income Tax ("CIT") in the PRC 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.

	For the six months ended June 30,	
	2006 Rmb'000 Unaudited	2005 Rmb'000 Unaudited (Re-stated)
Group		
Tax charged	383,848	328,805
Deferred	(11,347)	66
Tax charge for the Period	372,501	328,871

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the PRC to the tax expense at the effective tax rates is as follows:

	For the six months ended June 30,	
	2006 Rmb'000 Unaudited	2005 Rmb'000 Unaudited (Re-stated)
Group		
Profit before tax	1,133,000	1,020,517
Tax at the statutory tax rate of 33%	373,890	336,771
Tax effect of share of profits of associates	(688)	(1,154)
Tax effect of share of profit of a jointly-controlled entity	(3,349)	(3,523)
Tax effect of net (income)/expense that is not (taxable)/deductible in determining taxable profit	2,648	(3,223)
Tax charge at the Group's effective tax rate	372,501	328,871

7. DIVIDENDS

The Directors have recommended the payment of an interim dividend of Rmb7.0 cents per share (2005: Rmb7.0 cents), subject to the approval of the shareholders at the Company's proposed extraordinary general meeting to be held on November 16, 2006. The recommendation has been set out in the financial statements.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Company for the Period of Rmb688,729,000 (2005: Rmb632,693,000) and the 4,343,114,500 shares (2005: 4,343,114,500 shares) in issue during the Period.

Diluted earnings per share for the Period have not been calculated, as no diluting event occurred during these years.

9. PROPERTY, PLANT AND EQUIPMENT

There were no significant changes to the Group's property, plant and equipment during the Period.

10. PREPAID LEASE PAYMENT

	As at June 30, 2006 Rmb'000 Unaudited	As at December 31, 2005 Rmb'000 Audited
The Group's prepaid lease payments comprise:		
Leasehold land outside Hong Kong:		
Medium-term lease	396,517	405,586
Analysis for reporting purposes as:		
Current asset	18,137	18,138
Non-current asset	378,380	387,448
	396,517	405,586

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

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11. TRADE RECEIVABLES

The aging analysis of trade receivables at the balance sheet dates are as follows:

	As at June 30, 2006 Rmb'000 Unaudited	As at December 31, 2005 Rmb'000 Audited
Within 1 year	47,235	20,470
1 to 2 years	1,011	1,274
Over 2 years	1,249	—
Total	49,495	21,744

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

12. OTHER RECEIVABLES

	As at June 30, 2006 Rmb'000 Unaudited	As at December 31, 2005 Rmb'000 Audited
Prepayments	22,349	21,793
Capital contribution to Kinghing Securities	600,000	—
Entrusted loan to a related party	—	260,000
Deposits and other debtors	29,222	34,445
Total	651,571	316,238

13. TRADE PAYABLES

The aging analysis of trade payables at the balance sheet dates are as follows:

	As at June 30, 2006 Rmb'000 Unaudited	As at December 31, 2005 Rmb'000 Audited
Within 1 year	344,003	368,672
1 to 2 years	68,199	26,786
2 to 3 years	21,057	3,211
Over 3 years	85	3,552
Total	433,344	402,221

14. OTHER PAYABLES AND ACCRUALS

	As at June 30, 2006 Rmb'000 Unaudited	As at December 31, 2005 Rmb'000 Audited
Accruals	55,565	80,277
Other liabilities	276,317	232,444
Amounts due to related parties	12,151	12,151
Amounts due to the holding company	2,599	2,599
Total	346,632	327,471

15. DEFERRED TAX

	As at June 30, 2006 Rmb'000 Unaudited	As at December 31, 2005 Rmb'000 Audited
Deferred tax liabilities		
At beginning of period/year	384,153	384,577
(Income) for the period/year	(11,347)	(424)
At end of period/year	372,806	384,153
Analysed by principal components		
Revaluation on marketable securities at market price of the end of period/year	(2,966)	7,176
Temporary differences resulting from depreciation method	(8,381)	(7,600)
	(11,347)	(424)
Deferred tax assets		
At beginning of period/year	—	38,319
(Income) for the period/year	—	(38,319)
At end of period/year	—	—
Analysed by principal components		
Temporary difference resulting from disposal of property, plant and equipment	—	(38,319)
	—	(38,319)

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

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16.RESERVES

	Share premium account Rmb'000	Goodwill reserve Rmb'000	Statutory surplus reserve Rmb'000	Voluntary surplus reserve Rmb'000	Statutory public welfare fund Rmb'000	Dividend reserve Rmb'000	Retained profits Rmb'000	Total Rmb'000
As at January 1, 2006	3,645,726	—	1,068,054	—	431,448	651,467	1,056,108	6,852,803
Profit for the Period	—	—	—	—	—	—	688,729	688,729
Dividends paid to shareholders of the Company	—	—	—	—	—	(651,467)	—	(651,467)
Proposed interim dividend	—	—	—	—	—	304,018	(304,018)	—
Transfer to voluntary surplus reserve	—	—	—	431,448	(431,448)	—	—	—
As at June 30, 2006	3,645,726	—	1,068,054	431,448	—	304,018	1,440,819	6,890,065

	Share premium account Rmb'000	Goodwill reserve Rmb'000	Statutory surplus reserve Rmb'000	Voluntary surplus reserve Rmb'000	Statutory public welfare fund Rmb'000	Dividend reserve Rmb'000	Retained profits Rmb'000	Total Rmb'000
As at January 1, 2005	3,645,726	(352,860)	892,951	—	431,448	651,467	1,108,364	6,377,096
Profit for the Period	—	—	—	—	—	—	711,457	711,457
Dividends paid to shareholders of the Company	—	—	—	—	—	(651,467)	—	(651,467)
Proposed interim dividend	—	—	—	—	—	304,018	(304,018)	—
As as June 30, 2005 as originally stated	3,645,726	(352,860)	892,951	—	431,448	304,018	1,515,803	6,437,086
Effects of changes in accounting estimate	—	—	—	—	—	—	(78,764)	(78,764)
As at June 30, 2005 as re-stated	3,645,726	(352,860)	892,951	—	431,448	304,018	1,437,039	6,358,322

In accordance with relevant regulations issued by Ministry of Finance of PRC on April 1, 2006, the Company, its subsidiaries, associates and jointly-controlled entity (collectively the “Entities”) are required to transfer their balances of statutory public welfare fund as at December 31, 2005 to surplus reserve. As at June 30, 2006, approximate Rmb431,448,000 were transferred to voluntary surplus reserve.

17.COMMITMENTS

	As at June 30, 2006		
	Commitments Rmb million	Utilization Rmb million	Balance Rmb million
Shanghai-Hangzhou-Ningbo Expressway widening project:			
From Dajing to Fengjing	2,508	1,648	860
From Guzhu to Duantang	2,300	1,026	1,274
Acquisition of additional 18.4% equity interest in Zhejiang Shangsang Expressway Co., Ltd.	485	—	485
Remaining construction works of the Shangsang Expressway	48	4	44
Purchase of machinery	87	24	63
Jiashao Expressway project	1,145	35	1,110
Total	6,573	2,737	3,836

18.RELATED PARTY TRANSACTION

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

- a) On June 20, 2005, the Company signed a guarantee contract with the limitation of Rmb50,000,000 with Huaxia Bank Hangzhou Gaoxin Branch to provide a guarantee for the liabilities of the Zhejiang Expressway Investment Development Co., Ltd. ("Development Co.") from March 31, 2005 to March 31, 2006. By June 30, 2006, the loan balance of Rmb 50,000,000 was repaid; On November 18, 2005, the Company signed a guarantee contract with the limitation of Rmb 150,000,000 with Shenzhen Development Bank Hangzhou Huanglong Branch to provide a guarantee for the liabilities of the Development Co. from November 18, 2005 to November 18, 2006. By June 30, 2006, the loan balance was Rmb60,000,000;
- b) On November 17, 2005, the Company signed an entrusted loan contract with Zhejiang Jinji Property Co., Ltd. ("Jinji Co."), a subsidiary of the Zhejiang Communication Investment Group Co., Ltd. ("Communication Group"). According to the contract, the bank agreed to provide a half-year loan of Rmb260,000,000 to Jinji Co. on behalf of the Company. The rate of the loan was 6.55% for the half year. The loan was guaranteed by the Communication Group. The loan was paid back on April 29, 2006;
- c) According to decisions of the extraordinary general meeting of Development Co. on December 28, 2005, the company entrusted China Everbright Bank Hangzhou Zhaohui branch to provide a loan of Rmb50,000,000 to the Zhejiang Concord Property Investment Co., Ltd. (a 45% owned associate of Development Co.), from January 5, 2006 to January 5, 2007 with a rate of 10% per annum. The loan was paid back on June 20, 2006. According to decisions of the extraordinary general meeting of Development Co. on December 28, 2005, the company entrusted China Everbright Bank Hangzhou Zhaohui branch to provide a loan of Rmb46,000,000 to the Zhejiang Concord Property Investment Co., Ltd., from January 23, 2006 to January 23, 2007 with a rate of 10% per annum. The loan was paid back on June 29, 2006;

18.RELATED PARTY TRANSACTION (Continued)

- d) 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 Group which is controlled by the PRC government. Apart from the transactions with the Communications 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 individual expressway travelers and accordingly whether the transactions are with other state-controlled entities in the PRC.

19.POST BALANCE SHEET EVENTS

- a) On July 1, 2006, Kinghing Securities Co., Ltd. ("Kinghing Securities") held its third extraordinary general meeting of shareholders, approving new articles of association and electing a new session of board of directors. Mr. Fang Yunti, Mr. Pan Jiaxiang and Mr. Zhang Jingzhong, who are directors of Zhejiang Shangsang Expressway Co., Ltd. ("Shangsang Co."), were elected as directors of Kinghing Securities, with Mr. Fang Yunti elected as chairman of the board of directors.
- b) On August 4, 2006, the China Securities Regulatory Commission gave its approval for Kinghing Securities to change its name to Zheshang Securities Co., Ltd. ("Zheshang Securities"), as well as approving its articles of association. On August 15, 2006, Zheshang Securities completed its registration with Zhejiang Industrial and Commercial Administrative Bureau, and had a new business license issued.

20.CONTINGENT LIABILITIES AND PLEDGE OF ASSETS

As at June 30, 2006, the Group did not have any contingent liabilities nor any pledge of assets.

21.COMPARATIVE AMOUNTS

Starting with the financial year 2005, expressways and bridges are depreciated by straight-line method in the residual years, which is a change in accounting estimate, and is considered by the Directors to be suitable in the future. Due to this change of accounting estimate for the six months ended June 30, 2005, the carrying value of property, plant and equipment and the profit before tax were decreased, while the depreciation expense was increased by an amount of Rmb130,614,000. Accordingly, profit attributable to equity holders of the Company was decreased by Rmb78,764,000 for the six months ended June 30, 2005.

Therefore, certain comparative figures have been restated to conform to the Period's presentation.

22.APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on August 29, 2006.