1. General information

Anhui Expressway Company Limited (the "Company") was incorporated in the People's Republic of China ("PRC") on 15th August 1996 as a joint stock limited company. The Company and its subsidiaries (the "Group") are principally engaged in the operation and management of the toll roads in the Anhui Province.

The Company's H shares and A shares have been listed on the Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange since November 1996 and January 2003 respectively. The address of its registered office is No. 669, West Changjiang Road, Hefei, Anhui, PRC.

These financial statements are presented in thousands of Renminbi ("RMB'000"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 23 March 2007.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied in all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

(a) Amendments to published standards effective in 2006

Hong Kong Accounting Standards (HKAS) 19 (Amendment), Employee Benefits, is mandatory for a company's accounting periods beginning on or after 1 January 2006. It provides the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also provides for certain new disclosure requirements. The amendment does not have significant impact to the Group and the adoption of this amendment only impacts the format and extent of disclosures presented in the accounts.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) Standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and interpretations to existing standards have been issued and will become mandatory for a company's accounting periods beginning on or after 1 May 2006 but which the Group has not early adopted:

HKFRS 7, Financial instruments: Disclosures, and the complementary Amendment to HKAS 1, Presentation of Financial Statements - Capital Disclosures. HKFRS 7 provides for new disclosures relating to financial instruments. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

Hong Kong International Financial Reporting Interpretation Committee (HK(IFRIC))-Int 8, Scope of HKFRS 2 (effective for accounting periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires the consideration of transactions involving the issuance of equity instruments - where the identifiable consideration received is less than the fair value of the equity instruments issued as to whether they fall within the scope of HKFRS 2. The Group will adopt HK(IFRIC)-Int 8 from 1 January 2007, but it is not expected to have any impact on the Group's consolidated financial statements.

HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for accounting periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the reversal of impairment losses recognised in an interim period in respect of goodwill, investments in equity instruments and investments in financial assets carried at cost, at a subsequent balance sheet date. The Group will adopt HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have significant impact on the Group's accounts.

(c) Interpretations to existing standards that are not yet effective and not relevant to the Group's operations

The following interpretations to existing standards have been issued and are mandatory for a company's accounting periods beginning on or after 1 March 2006 but are not relevant to the Group's operations:

HK(IRFIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the Group's entities operates in a hyperinflationary economy, HK(IFRIC)-Int 7 is not relevant to the Group's operations;

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) Interpretations to existing standards that are not yet effective and not relevant to the Group's operations (continued)

HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for accounting periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the Group's entities have changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

(d) Standards, amendments and interpretations effective in 2006 but not relevant to the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 21 Amendment – Net Investment in a Foreign Operation;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKAS 39 and IFRS 4 Amendment – Financial Guarantee Contracts;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- HKFRS 1 Amendment – First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;
- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

2. Summary of significant accounting policies (continued)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates in the Group's financial statements are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses in associates are recognised in the consolidated income statement.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses (Note 2.8). The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2. Summary of significant accounting policies (continued)

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

2. Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

Depreciation of toll roads is calculated to write off their cost on a units-of-usage basis whereby depreciation is provided based on the share of traffic volume for a particular period over the projected total traffic volume throughout the periods for which the Group is granted the rights to operate those roads.

Depreciation of property, plant and equipment other than toll roads is calculated using the straight-line method to allocate cost over their estimated useful lives, after taking into account an estimated residual value of 3% of cost, as follows:

Buildings	30 years
Safety, communication and signaling equipment	10 years
Toll station and ancillary equipment	7 years
Motor vehicles	9 years
Other machinery and equipment	6-9 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

Construction in progress represents property, plant and equipment under construction and is stated at cost less accumulated impairment losses. Construction in progress is not depreciated until such time when the assets are completed and ready for their intended use.

2.6 Intangible assets – acquired computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (five years).

2.7 Land use rights

All land in PRC is state-owned or collectively-owned and no individual land ownership exists. The Group acquires the right to use certain land. The premiums paid for such right are treated as prepayment for operating lease and recorded as land use rights, which are amortised over the lease period using the straight-line method.

2. Summary of significant accounting policies (continued)

2.8 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial Assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivable, held-to maturity investments and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.11).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held to maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets. During the year, the Group did not hold any investments in this category.

2. Summary of significant accounting policies (continued)

2.9 Financial Assets (continued)

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within other (losses)/gains - net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

2. Summary of significant accounting policies (continued)

2.9 Financial Assets (continued)

(d) Available-for-sale financial assets (continued)

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets in impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.11.

2.10 Inventories

Inventories comprise materials and spare parts for the repair and maintenance of toll roads. The inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

2.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

2. Summary of significant accounting policies (continued)

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.14 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.16 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. Summary of significant accounting policies (continued)

2.17 Employee benefits

The Group contributes on a monthly basis to defined contribution plans in the PRC based on a percentage of the relevant employee's monthly salaries. The Group's contributions to defined contributions plans are expensed as incurred. The Group has no legal or constructive obligations to pay further contributions even if the schemes do not hold sufficient assets to pay all employees the benefits relating to employee in the current and prior periods.

Additional compensations for employee retirement are recognised in the earlier of the periods in which the Group established a constructive obligation and created a valid expectation on the employee, entered into an agreement with the employee specifying the terms, or after the individual employee has been advised of the specific terms. Details of the Group's retirement benefits are set out in Note 22.

2.18 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2. Summary of significant accounting policies (continued)

2.19 Revenue recognition

(a) Toll income

Toll income, net of related business tax, is recognised on a receipt basis.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

(d) Service income

Service income is recognised when the service has been rendered.

(e) Rental income

Operating lease rental income is recognised on a straight-line basis.

2.20 Leases (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.22 Enterprise Safety Fund

According to the regulations of the PRC, the Group is required to accrue 1% of its toll income as Enterprise Safety Fund from 1st January 2004 onwards. The fund can only be used for improvements of the safety of its toll roads. Accruals to the fund are treated as an appropriation to reserves, which will be reversed to retained earnings upon utilization.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and expiration of the toll roads operation period granted), credit risk, liquidity risk and cash flow and interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group principally operates in the PRC and is not exposed to material foreign exchange risks.

(ii) Price risk

The Group is not exposed to material commodity price risk.

(iii) Expiration of the toll roads operation periods granted

According to relevant regulations, the Group is obliged to transfer the rights to operate the toll roads back to the government when the operation periods expire.

(b) Credit risk

Most of the Group's revenues are cash sales and therefore the Group has minimum credit risk.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow and interest-rate risk

Except for the interest bearing assets and liabilities disclosed in Notes 15 and 19, the Group has no other significant interest-bearing assets and interest-bearing liabilities, the Group's income, expenses and operating cash flows are substantially independent of changes in market interest rates.

3. Financial risk management (continued)

3.2 Fair value estimation

All financial instruments of the Group are not traded in an active market. The fair value of financial instruments is determined by using valuation techniques. The Group makes assumptions that are based on market conditions existing at each balance sheet date. Estimated discounted cash flows are used to determine fair value for the financial instruments.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Estimation of useful lives and residual value of property, plant and equipment

The Group's management determines the estimated useful lives and residual value for its property, plant and equipment. For property, plant and equipment other than toll roads, the estimate is based on the historical experience of the actual useful lives and residual value of these property, plant and equipment of similar nature and functions.

Management will revise the depreciation charge where useful lives and residual values are different to previously estimated, or it will write off or write down technically obsolete or non-strategy assets that have been abandoned or sold.

(b) Estimation of traffic volume during the operating periods of toll roads

For toll roads, depreciation is provided based on the share of traffic volume for a particular period over the projected total traffic volume throughout the periods for which the Group is granted the rights to operate those roads.

It is the Group's policy to review regularly the projected total traffic volume throughout the operating periods of the respective toll roads. If it is considered appropriate, independent professional traffic studies will be obtained. Appropriate adjustment will be made should there be a material change.

(All amounts in Renminbi thousands unless otherwise stated)

5. Segment information

Apart from operating and managing toll roads, the Group does not conduct other businesses which have significant impact on the Group's results. Accordingly, no segment income statement has been prepared by the Group. The Group also operates within one geographical segment because its revenues are primarily generated in the Anhui Province, PRC and its assets are mainly located in Anhui Province, PRC. Accordingly, no geographical segment data is presented.

6. Land use rights

The Group and the Company's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

Group

	As at 31 December	
	2006	2005
Cost	**743,238**	623,502
Accumulated amortisation	**(167,971)**	(146,552)
Net book amount	**575,267**	476,950

	Year ended 31 December	
	2006	2005
Opening net book amount	**476,950**	498,368
Additions	**119,736**	—
Amortisation charges (Note 25)	**(21,419)**	(21,418)
Closing net book amount	**575,267**	476,950

(All amounts in Renminbi thousands unless otherwise stated)

6. Land use rights (continued)

Company

	As at 31 December	
	2006	2005
Cost	**584,235**	362,419
Accumulated amortisation	**(132,395)**	(93,809)
Net book amount	**451,840**	268,610

	Year ended 31 December	
	2006	2005
Opening net book amount	**268,610**	280,898
Addition	**119,736**	—
Transfer-in in respect of Anhui Gao Jie Expressway Company Limited. ("Gao Jie", Note 9(b))	**78,071**	—
Amortisation charges (Note25)	**(14,577)**	(12,288)
Closing net book amount	**451,840**	268,610

All of the Group's land use rights are located in Anhui Province, the PRC and are held on lease terms of 29-30 years from the dates of acquisition, and expiring in 2026 to 2036.

(All amounts in Renminbi thousands unless otherwise stated)

7. Property, plant and equipment

Group

	Toll roads	Buildings	Safety, communication and signalling equipment	Toll station and ancillary equipment	Motor vehicles	Other machinery and equipment	Construction in progress	Total
At 1 January 2005								
Cost	5,831,249	331,234	557,500	77,464	50,804	36,920	70,390	6,955,561
Accumulated depreciation	(459,097)	(33,458)	(259,321)	(42,175)	(24,858)	(12,191)	—	(831,100)
Net book amount	5,372,152	297,776	298,179	35,289	25,946	24,729	70,390	6,124,461
Year ended 31 December 2005								
Opening net book amount	5,372,152	297,776	298,179	35,289	25,946	24,729	70,390	6,124,461
Additions	—	1,613	127	13,445	6,014	7,638	405,973	434,810
Disposals	—	(9,874)	(5,151)	(76)	(1,325)	(262)	—	(16,688)
Transfers	35,034	30,696	58,945	13,884	652	2,111	(141,322)	—
Depreciation (Note 25)	(141,431)	(11,547)	(48,325)	(7,758)	(4,160)	(6,581)	—	(219,802)
Closing net book amount	5,265,755	308,664	303,775	54,784	27,127	27,635	335,041	6,322,781
At 31 December 2005								
Cost	5,860,320	351,948	606,471	98,272	52,342	52,343	335,041	7,356,737
Accumulated depreciation	(594,565)	(43,284)	(302,696)	(43,488)	(25,215)	(24,708)	—	(1,033,956)
Net book amount	5,265,755	308,664	303,775	54,784	27,127	27,635	335,041	6,322,781
Year ended 31 December 2006								
Opening net book amount	5,265,755	308,664	303,775	54,784	27,127	27,635	335,041	6,322,781
Additions	—	3,558	7,934	150	10,498	573	587,655	610,368
Disposals	—	(34)	—	—	(93)	(2)	—	(129)
Transfers	710,536	30,319	10,100	70,615	3,842	11,009	(836,421)	—
Depreciation (Note 25)	(147,860)	(14,151)	(47,040)	(20,099)	(5,603)	(9,449)	—	(244,202)
Closing net book amount	5,828,431	328,356	274,769	105,450	35,771	29,766	86,275	6,688,818
At 31 December 2006								
Cost	6,570,072	383,957	620,108	171,505	67,460	66,765	86,275	7,966,142
Accumulated depreciation	(741,641)	(55,601)	(345,339)	(66,055)	(31,689)	(36,999)	—	(1,277,324)
Net book amount	5,828,431	328,356	274,769	105,450	35,771	29,766	86,275	6,688,818

For the year ended 31 December 2006
(All amounts in Renminbi thousands unless otherwise stated)

7. Property, plant and equipment (continued)

Company

	Toll roads	Buildings	Safety, communication and signalling equipment	Toll station and ancillary equipment	Motor vehicles	Other machinery and equipment	Construction in progress	Total
At 1 January 2005								
Cost	3,470,681	211,168	315,230	55,838	32,065	35,822	38,903	4,159,707
Accumulated depreciation	(253,404)	(13,883)	(150,885)	(27,560)	(16,669)	(12,346)	—	(474,747)
Net book amount	3,217,277	197,285	164,345	28,278	15,396	23,476	38,903	3,684,960
Year ended 31 December 2005								
Opening net book amount	3,217,277	197,285	164,345	28,278	15,396	23,476	38,903	3,684,960
Additions	—	77	5,150	13,376	5,035	7,048	328,573	359,259
Disposals	—	—	(70)	—	(202)	(59)	—	(331)
Transfers	(44,895)	24,182	48,053	9,574	707	1,361	(38,982)	—
Depreciation	(89,426)	(8,695)	(23,393)	(7,227)	(2,755)	(5,526)	—	(137,022)
Closing net book amount	3,082,956	212,849	194,085	44,001	18,181	26,300	328,494	3,906,866
At 31 December 2005								
Cost	3,419,823	235,859	372,927	79,463	37,332	44,210	328,494	4,518,108
Accumulated depreciation	(336,867)	(23,010)	(178,842)	(35,462)	(19,151)	(17,910)	—	(611,242)
Net book amount	3,082,956	212,849	194,085	44,001	18,181	26,300	328,494	3,906,866
Year ended 31 December 2006								
Opening net book amount	3,082,956	212,849	194,085	44,001	18,181	26,300	328,494	3,906,866
Additions	—	3,529	6,993	—	8,890	548	244,341	264,301
Disposals	—	—	—	—	(94)	—	—	(94)
Transfers	368,122	30,321	10,101	70,615	3,842	11,008	(494,009)	—
Transfer-in in respect of Gao Jie (Note 9(b))	1,821,811	129,022	144,774	10,797	6,532	8,217	6,900	2,128,053
Depreciation	(120,816)	(14,154)	(44,813)	(19,119)	(4,764)	(9,736)	—	(213,402)
Closing net book amount	5,152,073	361,567	311,140	106,294	32,587	36,337	85,726	6,085,724
At 31 December 2006								
Cost	5,777,755	417,375	651,487	169,468	60,998	76,308	85,726	7,239,117
Accumulated depreciation	(625,682)	(55,808)	(340,347)	(63,174)	(28,411)	(39,971)	—	(1,153,393)
Net book amount	5,152,073	361,567	311,140	106,294	32,587	36,337	85,726	6,085,724

(All amounts in Renminbi thousands unless otherwise stated)

8. Intangible assets – Group

	Computer Software
At 1 January 2005	
Cost	3,733
Accumulated amortisation	(760)
Net book amount	2,973
Year ended 31 December 2005	
Opening net book amount	2,973
Additions	1,016
Amortisation expenses (Note 25)	(437)
	3,552
At 31 December 2005	
Cost	4,749
Accumulated amortisation	(1,197)
Net book amount	3,552
Year ended 31 December 2006	
Opening net book amount	3,552
Additions	954
Amortisation expenses (Note 25)	(518)
	3,988
At 31 December 2006	
Cost	5,703
Accumulated amortisation	(1,715)
Net book amount	3,988

For the year ended 31 December 2006
(All amounts in Renminbi thousands unless otherwise stated)

9. Investments in subsidiaries - Company

	As at 31 December	
	2006	2005
Investments, at cost:		
Unlisted shares	**68,495**	221,495

The following is a list of the principal subsidiaries at 31 December 2006:

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Paid in, issued and fully paid share capital (RMB'000)	Interest directly held by the Company (%)
Xuan Guang Expressway Company Limited ("Xuan Guang") (a)	PRC, limited liability company	Management and operation of expressway in Anhui province, PRC	111,760	55.47%
Anhui Kangcheng Pharmaceutical Co.,Ltd. ("Kang Cheng")	PRC, limited liability company	Sales and development of pharmaceutical products in Anhui province, PRC	10,000	65.00%

The movement of the investments in subsidiaries of the Company is as follows:

	2006			
	Xuan Guang	**Gao Jie** (note b)	**Kang Cheng**	**Total**
Balance at 1 January 2006	61,995	153,000	6,500	221,495
Changes in the year	—	(153,000)	—	(153,000)
Balance at 31 December 2006	61,995	—	6,500	68,495

9. Investments in subsidiaries – Company (continued)

(a) Investment in Xuan Guang

Xuan Guang is a co-operative joint venture established by the Company and Xuancheng Highway Management Company ("XHMC") in July 1998 with an operating period of 30 years. The Company invested in total RMB366,600,000 in Xuan Guang, in the forms of capital contribution of RMB36,660,000 and long term loan of RMB329,940,000,representing the Company's share of the total investment in Xuan Guang in excess of the Company's share of its registered capital. According to the joint venture contract, annual distribution (the "distribution") equaling net profit plus depreciation and amortisation of its property, plant and equipment are to be made wholly to the Company till the total distribution received by the Company equal to its total investment in Xuan Guang. Thereafter, the distribution will be shared by the Company and XHMC in proportion to their respective contributions to Xuan Guang's registered capital. The net profit portion of the distribution received is accounted for as dividend income while the amortisation and depreciation portion of the distribution received is accounted for as repayments to the long term loan advanced to Xuan Guang.

Pursuant to a capital injection contract between the Company and XHMC dated 11 August 2003, XHMC contributed Xuanguang Expressway (Nanhuan section) to Xuan Guang at an agreed price of RMB398,800,000 in the form of capital contribution of RMB39,880,000 and long term loan of RMB358,920,000.

Pursuant to a share transfer agreement dated 11 September 2003 subsequently entered into by the Company and XHMC, the Company acquired XHMC's interests in Xuanguang (in the forms of paid-in-capital of RMB25,335,000 and shareholder's loan of RMB228,015,000) at a total consideration of RMB253,350,000. After the acquisition, the Company held 55.47% interest in XuanGuang. The profit distribution arrangement of Xuanguang mentioned above remains unchanged.

According to the contracts and agreements mentioned above, XHMC has begun to be entitled to the distribution of Xuan Guang in the year 2006. For the year ended 31 December 2006, the profit of Xuan Guang attributable to XHMC amounted to RMB12,646,549 and the depreciation and amortisation portion attributable to XHMC amounted to RMB5,948,078.

(All amounts in Renminbi thousands unless otherwise stated)

9. Investments in subsidiaries - Company (continued)

(b) Investment in Gao Jie

Gao Jie is a co-operative joint venture established by the Company and Anhui Expressway Holding Company ("AEHC") with an operating period of 32 years. The Company invested in total RMB940,440,000 in Gao Jie, in the form of capital contribution of RMB153,000,000 and long term loan of RMB787,440,000, representing the Company's share of the total investment in Gao Jie in excess of the Company's share of its registered capital. According to the joint venture contract, annual distribution (the "distribution") equaling net profit plus depreciation and amortisation of its property, plant and equipment are to be made wholly to the Company till 30 April 2006. Thereafter, the distribution will be shared by the Company and AEHC in proportion to their respective contributions to Gao Jie's registered capital. The net profit portion of the distribution received is accounted for as dividend income while the amortisation and depreciation portion of the distribution received is accounted for as repayments to the long term loan advanced to Gao Jie.

On 4 March 2005, the Company entered into an agreement with AEHC to acquire the long term payables to AEHC and AEHC's 49% equity interest in Gao Jie for a total consideration of RMB1,350,000,000(the "Transaction"). The relevant approval from government authorities was obtained on 29 November 2005.

Pursuant to the agreement, the Company paid the consideration of RMB400,000,000 and RMB950,000,000 to AEHC on 28 December 2005 and 6 January 2006 respectively. Gao Jie was de-registered and merged all of its assets and liabilities to the Company on 16 May 2006, when the Transaction was completed.

Details of the Transaction are as follows:

Purchase consideration	
– cash paid	1,350,000
Less: Long-term payables to AEHC at fair value on 16 May 2006	(503,853)
AEHC's 49% equity interest in Gao Jie	(147,000)
Excess of the consideration over the carrying amount of the interests acquired	699,147

Such excess of the consideration over the carrying amount of the interests acquired is recognised directly in equity and attributed to the equity holders of the Company (Note 17).

After the acquisition of the long term payables to AEHC, the related deferred tax liability amounted to RMB75,893,665 was charged directly to the profit and loss account (Note 28).

(All amounts in Renminbi thousands unless otherwise stated)

10. Loans to subsidiaries- Company

	Company	
	31 December 2006	31 December 2005
Loans to subsidiaries	**259,467**	522,657
Less: Loans to subsidiaries expected to be repaid within 12 months	**(53,000)**	(79,000)
	206,467	443,657

As at 31 December 2006, loans to subsidiaries represent the Company's share of the total investment in Xuan Guang in excess of the Company's share of its registered capital (Note 9).

As at 31 December 2005, loans to subsidiaries represent the Company's share of the total investment in Gao Jie and Xuan Guang in excess of the Company's respective share of their respective registered capital (Note 9).

The carrying amounts and fair values of loans to subsidiaries are as follows:

	Company			
	Carrying Amounts		Fair values	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005
Loans to subsidiaries				
– Xuan Guang	**259,467**	261,774	**251,492**	260,784
– Gao Jie (Note9(b))	**—**	260,883	**—**	260,066
	259,467	522,657	**251,492**	520,850

The above loans are unsecured, and the repayment terms are set out in Note 9.

The fair values of loans to subsidiaries are based on cash flows discounted using 6.84%, the annual interest rate published by the People's Bank of China for long-term bank loans as at 31 December 2006 (31 December 2005: 6.12%).

For the year ended 31 December 2006
(All amounts in Renminbi thousands unless otherwise stated)

11. Interest in associates

Group

	Year ended 31 December	
	2006	2005
Beginning of the year	**5,733**	2,500
Share of associates' results		
– profit/(loss) before income tax	**546**	5,187
– income tax	**(180)**	(2,011)
Other equity movements	**356**	57
End of the year	**6,455**	5,733

The Group's interest in its principal associates, all of which are unlisted, were as follows:

Name	Particulars of issued shares held	Country of incorporation	Assets	Liabilities	Revenues	Net Profits/ (losses)	% of Interest held
2006							
Anhui Highway Real Estate Co., Ltd.	Equity capital	PRC	9,857	9,707	2,621	102	20%
Anhui Expressway Advertisement Co., Ltd.	Equity capital	PRC	9,684	3,379	4,956	264	38%
			19,541	13,086	7,577	366	
2005							
Anhui Highway Real Estate Co., Ltd.	Equity capital	PRC	9,857	9,707	—	(906)	20%
Anhui Expressway Advertisement Co., Ltd.	Equity capital	PRC	9,068	3,485	8,484	4,082	38%
			18,925	13,192	8,484	3,176	

(All amounts in Renminbi thousands unless otherwise stated)

11. Interest in associates (continued)

Company

	As at 31 December	
	2006	2005
Unlisted equity, at cost	**1,593**	1,444

12. Available-for-sale financial assets

	As at 31 December	
	2006	2005
Unlisted equity securities, at cost	**18,000**	18,000

There were no disposals or impairment provisions on available-for-sale financial assets in the year ended 31 December 2006 and 2005.

The unlisted equity securities represent the Company's 18% equity interest in an unlisted company located in Anhui Province, the PRC. The securities are measured at cost less provision for impairment. Since there is no active market for similar equity instruments, the fair value cannot be measured reliably.

13. Trade and other receivables

	Group As at 31 December		Company As at 31 December	
	2006	2005	**2006**	2005
Prepayments	**4,102**	7,909	**4,102**	6,102
Receivables from related parties	**—**	2,082	**—**	1,552
Others	**11,440**	15,359	**9,017**	11,922
	15,542	25,350	**13,119**	19,576
Less: Provision for impairment in value	**—**	—	**—**	—
	15,542	25,350	**13,119**	19,576

For the year ended 31 December 2006
(All amounts in Renminbi thousands unless otherwise stated)

14. Inventories

	Group As at 31 December		Company As at 31 December	
	2006	2005	**2006**	2005
Raw Materials	**2,873**	2,866	**2,873**	1,019

15. Cash and cash equivalents

	Group As at 31 December		Company As at 31 December	
	2006	2005	**2006**	2005
Cash at bank and in hand	**400,453**	580,964	**345,738**	324,466

(i) The weighted average effective interest rate per annum on cash at bank was approximately 1.08% (2005: 1.08%).

(ii) The carrying amounts of cash at bank and in hand are denominated in the following currencies:

	Group As at 31 December		Company As at 31 December	
	2006	2005	**2006**	2005
RMB	**378,219**	534,349	**323,504**	277,851
HKD	**22,234**	46,615	**22,234**	46,615
	400,453	580,964	**345,738**	324,466

16. Share capital

	Number of shares (thousands)	Ordinary share capital	Share premium	Total
At 1 January 2005 and 2006	1,658,610	1,658,610	1,447,459	3,106,069
Changes in the year	—	—	—	—
At 31 December 2005 and 2006	1,658,610	1,658,610	1,447,459	3,106,069

The total authorized number of ordinary shares is 1,658,610,000 shares with a par value of RMB1 per share. All issued shares are fully paid.

Share reform plan

Pursuant to the Revised Share Reform Plan announced by the Company on 14 February 2006, AEHC and Huajian Transportation Economic Development Center, both of whom are shareholders of the Company, proposed to offer, free of consideration, the holders of A Shares on the basis of 2 shares and RMB4.35 for every 10 A Shares held by these shareholders on 30 March 2006. The proposal has been approved by the State-owned Assets Supervision and Administration Commission of the People's Government of Anhui Province (Wan Guo Zi Chan Quan Han 2006 No.50), Ministry of Commerce of the PRC (Shang Zi Pi 2006 No.844) and has been approved at the relevant shareholders' meeting held on 27 February 2006.

(All amounts in Renminbi thousands unless otherwise stated)

17. Other reserves

Group

	Capital Surplus	Statutory Surplus Reserve Fund	Statutory Public Welfare Fund	Discretionary Surplus Reserve Fund	Enterprise Safety Fund	Excess of the consideration over carrying amount of the minority interests acquired (Note 9(b))	Total
Balance at 1 January 2005	2,397	218,575	194,783	658	10,780	—	427,193
Profit appropriations	—	90,192	78,058	—	15,030	—	183,280
Utilization of Enterprise Safety Fund	—	—	—	—	(526)	—	(526)
Other additions	57	—	—	—	—	—	57
Balance at 31 December 2005	2,454	308,767	272,841	658	25,284	—	610,004
Acquisition of the minority interests of a subsidiary (Note 9(b))	—	—	—	—	—	(699,147)	(699,147)
Transfers (note (a))	—	272,841	(272,841)	—	—	—	—
Reversal of statutory surplus reserve fund (note (b))	—	(54,284)	—	—	—	—	(54,284)
Profit appropriations	—	86,413	—	—	16,163	—	102,576
Utilization of Enterprise Safety Fund	—	—	—	—	(627)	—	(627)
Other deductions	(211)	—	—	—	—	—	(211)
Balance at 31 December 2006	2,243	613,737	—	658	40,820	(699,147)	(41,689)

(a) Pursuant to the relevant regulations issued by the Ministry of Finance of the PRC, the Company and its subsidiaries have ceased to appropriate the Statutory Public Welfare Fund from 1 January 2006 onwards. The balance of such fund as at 31 December 2005 should be reclassified to Statutory Surplus Reserve Fund accordingly.

(b) Gao Jie, a subsidiary of the Company, completed its de-registration process and merged all of its assets and liabilities into the Company on 16 May 2006 (Note 9(b)). Accordingly, its Statutory Surplus Reserve Fund balance of approximately RMB54,284,000 was transferred to retained earnings of the Group.

(All amounts in Renminbi thousands unless otherwise stated)

17. Other reserves (continued)

Company

	Statutory Surplus Reserve Fund	Statutory Public Welfare Fund	Discretionary Surplus Reserve Fund	Enterprise Safety Fund	Total
Balance at 1 January 2005	175,422	174,378	658	5,927	356,385
Profit appropriations	65,925	65,925	—	8,715	140,565
Utilization of Enterprise Safety Fund	—	—	—	(230)	(230)
Balance at 31 December 2005	241,347	240,303	658	14,412	496,720
Transfers (Note 17(a))	240,303	(240,303)	—	—	—
Transfer from Gao Jie (Note 9(b))	—	—	—	5,862	5,862
Profit appropriations	74,930	—	—	13,430	88,360
Utilization of Enterprise Safety Fund	—	—	—	(363)	(363)
Balance at 31 December 2006	556,580	—	658	33,341	590,579

18. Trade and other payables

	Group As at 31 December		Company As at 31 December	
	2006	2005	**2006**	2005
Payables on purchase of property, plant and equipment	**267,893**	249,896	**186,126**	216,174
Payables on repair and maintenance projects	**46,050**	18,262	**40,901**	15,370
Other taxation payables	**33,337**	34,319	**31,383**	30,114
Long-term payables to minority shareholders of subsidiaries expected to be repaid within 12 months (Note 9, 20)	**6,000**	—	**—**	—
Accrued expenses	**5,704**	6,379	**5,653**	5,680
Welfare payables	**3,490**	3,411	**2,830**	1,615
Other payables	**134,848**	161,463	**122,344**	107,302
	497,322	473,730	**389,237**	376,255

At 31 December 2006, all the trade and other payables were aged within one year.

for the year ended 31 December 2006
(All amounts in Renminbi thousands unless otherwise stated)

19. Borrowings

Group

	As at 31 December			
	2006		2005	
	Interest rate per annum		Interest rate per annum	
Unsecured short-term bank borrowings	**5.02%**	**1,261,000**	4.698%	350,000

Company

	As at 31 December			
	2006		2005	
	Interest rate per annum		Interest rate per annum	
Unsecured short-term bank borrowings	**5.02%**	**1,076,000**	4.698%	350,000

At 31 December 2006, the carrying amounts of short-term borrowings approximate their fair value.

The group has the following un-drawn borrowing facilities at the balance sheet date:

	As at 31 December	
	2006	2005
Floating rate and expiring within one year	**1,299,000**	1,610,000

(All amounts in Renminbi thousands unless otherwise stated)

20. Long-term payables to minority shareholders of subsidiaries – Group

	Group	
	31 December 2006	31 December 2005
Long-term payables to minority shareholders of subsidiaries	**281,770**	754,656

Long-term payables to minority shareholders of subsidiaries comprised of payables to the minority shareholders of Xuan Guang and Gao Jie, representing their share of total investment in Xuan Guang and Gao Jie in excess of their respective equity contribution in Xuan Guang and Gao Jie. Details of repayment terms of such long-term payables are set out in Note 9.

The carrying amounts and fair values of long-term payables to minority shareholders of subsidiaries are as follows:

	Carrying Amounts		Fair values	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005
Long-term payables to minority shareholders of subsidiaries				
– XHMC (Note 35)	**281,770**	260,430	**272,204**	258,415
– AEHC (Note 35)	**—**	494,226	**—**	491,519
	281,770	754,656	**272,204**	749,934

Long-term payables to AEHC was acquired by the Company at its fair value on 16 May 2006 (Note 9(b)).

The fair values of long-term payables to minority shareholders are based on cash flows discounted using 6.84%, the annual interest rate published by the People's Bank of China for long-term bank loans as at 31 December 2006 (31 December 2005: 6.12%).

for the year ended 31 December 2006
(All amounts in Renminbi thousands unless otherwise stated)

21. Deferred tax liabilities

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group As at 31 December		Company As at 31 December	
	2006	2005	**2006**	2005
Deferred tax liabilities:				
– Deferred tax to be recovered after more than 12 months	**202,456**	301,261	**112,055**	73,729
– Deferred tax to be recovered within 12 months	**(1,933)**	15,321	**(5,438)**	210
	200,523	316,582	**106,617**	73,939

The movement on the deferred income tax liabilities is as follows:

	2006					
	Valuation of assets and depreciation of toll roads	**Valuation and amortisation of toll roads related land use rights**	**Accounting for Enterprise Safety Fund**	**Accounting for Interest free loan**	**Others**	**Total**
Balance at 1 January 2006	**167,363**	**4,261**	**5,750**	**139,208**	**—**	**316,582**
Deferred taxation charged to income statement (Note 28)	**(15,784)**	**(210)**	**(5,750)**	**(86,360)**	**(7,955)**	**(116,059)**
Balance at 31 December 2006	**151,579**	**4,051**	**—**	**52,848**	**(7,955)**	**200,523**

	2005				
	Valuation of assets and depreciation of toll roads	Valuation and amortisation of toll roads related land use rights	Accounting for Enterprise Safety Fund	Accounting for Interest free loan	Total
Balance at 1 January 2005	153,017	4,471	2,491	153,676	313,655
Deferred taxation charged to income statement (Note 28)	14,346	(210)	3,259	(14,468)	2,927
Balance at 31 December 2005	167,363	4,261	5,750	139,208	316,582

(All amounts in Renminbi thousands unless otherwise stated)

22. Retirement benefit obligations – Group

The Group participates in the Anhui Provincial Retirement Scheme managed by Anhui Social Security Bureau. Pursuant to the relevant provisions, the Group is required to make a monthly contribution equivalent to the 20%-23% (2005: 20%-23%) of the basic monthly salary, subject to certain ceiling, in respect of its employees. The Bureau is responsible for pension payments to the retired employees of the Group and the Group has no further obligations.

In addition to the above pension plans, the employees of the Group also entered into a supplementary pension scheme on a voluntary basis. The Group is required to make an annual contribution to an independent fund management company equivalent to the basic monthly salary, subject to certain ceiling, in respect of its employees. The Group is also required to pay Rmb230 every month to those employees, who have retired or will retire before 31 December 2015. As at 31 December 2006, the retired employees of the Group was 15.

23. Revenues – Group

	Note	Year ended 31 December	
		2006	2005
Toll income		**1,617,898**	1,538,017
Rental income		**14,043**	8,607
Service income from management of toll roads		**13,933**	2,319
Service income from roads emergency assistance		**7,820**	7,635
Other		**1,875**	726
		1,655,569	1,557,304
Tax related to revenues	(a)	**(50,678)**	(62,600)
Total revenues		**1,604,891**	1,494,704

(a) Tax related to revenue

The Group was originally subject to Business Tax ("BT") at the rate of 5% of toll income and emergency assistance service income. Pursuant to the new BT regulation for toll income jointly issued by the Ministry of Finance and the State Administration of Taxation (Cai Shui 2005 No.77), the Group's BT rate of toll income was reduced to 3% effective from 1 June 2005.

In addition to BT, the Group is subject to the following turnover taxes:

(i) City Development Tax – levied at 5%-7% of BT.

(ii) Education Supplementary Tax – levied at 3% of BT.

(All amounts in Renminbi thousands unless otherwise stated)

24. Other gains/(losses) – net – Group

	Year ended 31 December	
	2006	2005
Dividend income	**1,080**	900
Interest income	**2,717**	2,893
Gain/(loss) from disposal on property, plant and equipment	**227**	(16,622)
Others	**999**	238
	5,023	(12,591)

25. Expenses by nature – Group

Expenses included in cost of sales and administrative expenses are analysed as follows:

	Year ended 31 December	
	2006	2005
Depreciation and amortisation expenses (Note 6, 7, 8)	**266,139**	241,657
Repair and maintenance expenses	**114,477**	158,046
Employee benefit expenses (Note 26)	**92,287**	104,240
Auditor's remuneration	**1,600**	1,260

26. Employee benefit expenses – Group

	Year ended 31 December	
	2006	2005
Salaries and wages	**69,919**	69,607
Retirement benefits	**10,184**	18,996
Other welfares	**12,184**	15,637
	92,287	104,240

(All amounts in Renminbi thousands unless otherwise stated)

26. Employee benefit expenses – Group (continued)

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31 December 2006 is set out below:

Name of Director	Fees	Salary	Other benefits	Contribution to pension scheme	Total
Executive Directors					
Mr. Wang Shui	—	650	—	39	689
Mr. Li Yungui	—	390	—	39	429
Mr. Zhang Hui	—	390	—	39	429
Mr. Tu Xiaobei	—	390	—	39	429
Non Executive Directors					
Mr. Zhang Wenshen	60	—	—	—	60
Mr. Li Zhanglin	60	—	—	—	60
Independent Directors					
Mr. Liang Mingjie	100	—	—	—	100
Ms. Li Mei	60	—	—	—	60
Ms. Guo Shan	60	—	—	—	60
	340	1,820	—	156	2,316

for the year ended 31 December 2006
(All amounts in Renminbi thousands unless otherwise stated)

26. Employee benefit expenses – Group (continued)

(a) Directors' and senior management's emoluments (continued)

The remuneration of every Director for the year ended 31 December 2005 was set out below:

Name of Director	Fees	Salary	Other benefits	Contribution to pension scheme	Total
Executive Directors					
Mr. Wang Shui	—	735	—	39	774
Mr. Li Yungui	—	475	—	39	514
Mr. Zhang Hui	—	475	—	39	514
Mr. Tu Xiaobei	—	475	—	39	514
Non Executive Directors					
Mr. Zhang Wenshen	48	—	—	—	48
Mr. Li Zhanglin (i)	23	—	—	—	23
Mr. He Kun (ii)	25	—	—	—	25
Independent Directors					
Mr. Liang Mingjie (i)	38	—	—	—	38
Ms Li Mei (i)	23	—	—	—	23
Ms. Guo Shan (i)	23	—	—	—	23
Mr. Zhang Lipin (ii)	63	—	—	—	63
Mr. Song Youmin (ii)	38	—	—	—	38
Mr. Cao Deyun (ii)	6	—	—	—	6
	287	2,160	—	156	2,603

(i) Appointed on 18 August 2005.

(ii) Retired on 18 August 2005.

None of the directors waived any emoluments during the years ended 31 December 2006 and 2005.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for both years include four directors, whose emoluments are reflected in the analysis presented above, and an employee whose emoluments amounted to Rmb390,000 (2005: 475,000).

(All amounts in Renminbi thousands unless otherwise stated)

27. Finance costs – Group

	Year ended 31 December	
	2006	2005
Interest expense on:		
– bank borrowings	**56,844**	12,639
– long-term payables to minority shareholders of subsidiaries	**36,967**	43,841
	93,811	56,480

28. Taxation – Group

The amount of taxation charged to the consolidated income statement represents:

	Year ended 31 December	
	2006	2005
Current taxation – EIT	**207,188**	202,031
Deferred taxation (Note 21)	**(116,059)**	2,927
	91,129	204,958

(a) Hong Kong profits tax

There were no Hong Kong profits tax liabilities as the Group has no assessable income which is subject to Hong Kong profits tax.

(b) PRC Enterprise Income Tax ("EIT")

The Company was registered in the Hefei High Technology Industry Development Zone and certified as a high-tech company. Pursuant to the relevant regulations on preferential policies on EIT issued by the Ministry of Finance and the State Taxation Bureau, the applicable EIT rate for the Company is at a reduced rate of 15%.

The other subsidiaries and associated companies of the Company are subject to EIT levied at a rate of 33% on taxable income based on their audited financial statements prepared in accordance with the laws and regulations in PRC.

28 Taxation – Group (continued)

(c) The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate for companies in PRC as follows:

	Year ended 31 December	
	2006	2005
Profit before income tax	**1,035,043**	890,006
Weighted - average EIT rates	**18.93%**	22.38%
Tax calculated at the weighted-average tax rate	**195,954**	199,186
Reversal of deferred tax liability due to the acquisition of long-term payable to AEHC (Note 9(b))	**(75,894)**	—
Effect of change of tax rate for the calculation of deferred taxation	**(28,931)**	—
Expenses not deductible for tax purposes	**—**	5,772
Tax Charge	**91,129**	204,958

29. Profit attributable to equity holders of the Company

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of approximately RMB1,306,233,000 (2005: RMB636,526,000).

30. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. No diluted earnings per share is presented as the Company has no dilutive potential shares.

	Year ended 31 December	
	2006	2005
Profit attributable to equity holders of the Company	**931,424**	686,103
Weighted average number of ordinary shares in issue (thousands)	**1,658,610**	1,658,610
Basic earnings per share (expressed in RMB per share)	**0.5616**	0.4137

(All amounts in Renminbi thousands unless otherwise stated)

31. Dividends

The dividends paid during the years ended 31 December 2006 and 2005 were RMB464,410,800 (RMB0.28 per share) and RMB165,861,000 (RMB0.1 per share) respectively. A final dividend in respect of 2006 of RMB0.25 per share, amounting to a total dividend of RMB414,652,500 will be proposed at the Annual General Meeting on 11 May 2007. These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2006	2005
Proposed final dividend of RMB0.25 (2005: RMB0.28) per ordinary share	**414,653**	464,411

32. Appropriation

(a) Statutory Surplus Reserve Fund

In accordance with the PRC Company Law and the Company's Articles of Association, the Company and its subsidiaries shall appropriate 10% of its annual statutory net income (after offsetting any prior years' losses) to the statutory surplus reserve account. When the balance of such reserve reaches 50% of the Company's share capital and the respective subsidiaries' registered capital, any further appropriation is optional. The statutory surplus reserve can be utilized to offset prior years' losses or to issue bonus shares. However, such statutory surplus reserve must be maintained at a minimum of 25% of share capital / registered capital after such issue.

(b) Statutory Public Welfare Fund

Before 31 December 2005, according to the relevant financial regulations of the PRC and the Company's Articles of Association, the Company and its subsidiaries are required to allocate 5% to 10% of its annual statutory net income to a statutory public welfare fund to be used for the collective welfare of the Company and its subsidiaries' employees. For the year ended 31st December 2005, the directors have recommended 10% allocations to the statutory public welfare fund for the Company, 5% for Xuan Guang and 5% for Gao Jie.

Pursuant to the relevant regulations issued by the Ministry of Finance of the PRC, the Company and its subsidiaries have ceased to appropriate the Statutory Public Welfare Fund from 1 January 2006 onwards. The balance of such fund as at 31 December 2005 should be reclassified to Statutory Surplus Reserve Fund under the regulations. (Note17(a)).

(All amounts in Renminbi thousands unless otherwise stated)

33. Notes to consolidated cash flow statement

(a) Reconciliation from profit before income tax to net cash inflow from operating activities:

	Year ended 31 December	
	2006	2005
Profit before income tax	**1,035,043**	890,006
Adjustments for:		
Depreciation of property, plant and equipment	**244,202**	219,802
Amortisation of land use rights	**21,419**	21,418
Amortisation of intangible assets	**518**	437
Gain/(loss) on disposal of property, plant and equipment	**(227)**	16,622
Share of profit from associated companies	**(366)**	(3,176)
Interest income	**(2,717)**	(2,893)
Interest expense	**93,811**	56,480
Dividend income	**(1,080)**	(900)
Operating profit before working capital changes	**1,390,603**	1,197,796
Increase in inventories	**(7)**	(1,382)
Decrease in prepayments and other receivables	**10,161**	13,888
Decrease in trade and other payables	**(153)**	(59,096)
Cash generated from operating activities	**1,400,604**	1,151,206

(b) Cash paid for acquisition of property, plant and equipment:

	Year ended 31 December	
	2006	2005
Increase in property, plant and equipment	**610,368**	434,810
Add: Payable on purchase of property, plant and equipment, beginning of year	**249,896**	240,035
Less: Payable on purchase of property, plant and equipment, end of year	**(267,893)**	(249,896)
Cash paid for acquisition of property, plant and equipment	**592,371**	424,949

34. Commitments – Group

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	As at 31 December	
	2006	2005
Acquisition of minority interest (Note 9(b))		
– Contracted but not provided for	**—**	950,000
Property, plant and equipment		
– Approved but not contracted	**1,000,000**	577,370
Property, plant and equipment		
– Contracted but not provided for	**830,000**	—

35. Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) Name of related party and relationship

Name	Relationship with the Group
AEHC	Parent company
XHMC	Minority shareholder of Xuan Guang
Anhui Kaiyuan Maintenance Project of highway Co., Ltd. (AKMP)	Subsidiary of AEHC
Anlian Expressway Co., Ltd. (ALEC)	Subsidiary of AEHC
Beijing Anlian Real Estate Development Co.,Ltd (BARD, originally named as Beijing Anlian Investment Co., Ltd.)	Subsidiary of AEHC

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(All amounts in Renminbi thousands unless otherwise stated)

35. Related party transactions (continued)

(b) Related party transactions

Apart from the acquisition of minority interests from AEHC as disclosed in Note 9(b), the Group had the following significant transactions with related parties:

i) Service income from management of toll roads

	Year ended 31 December	
	2006	2005
AEHC	**998**	998
ALEC	**498**	498
	1,496	1,496

ii) Service fee paid and payable

	Year ended 31 December	
	2006	2005
BARD	**836**	—
AKMP	**14,016**	—
	14,852	—

iii) Transactions with the State-owned Enterprises:

	Year ended 31 December	
	2006	2005
Borrowings from banks	**3,326,000**	500,000
Toll road repair and maintenance cost paid and payable	**11,091**	40,133
Toll road construction/improvement cost paid and payable	**389,733**	189,049
	3,726,824	729,182

(All amounts in Renminbi thousands unless otherwise stated)

35. Related party transactions (continued)

(c) Related party balances

(i) Trade and other receivables

	Group As at 31 December		Company As at 31 December	
	2006	2005	**2006**	2005
AEHC	**—**	530	**—**	72
ALEC	**—**	1,552	**—**	1,552
	—	2,082	**—**	1,624

(ii) Trade payables

	Group As at 31 December		Company As at 31 December	
	2006	2005	**2006**	2005
AKMP	**2,609**	—	**782**	—
State-owned Enterprises	**123,282**	120,500	**58,431**	109,182
	125,891	120,500	**59,213**	109,182

(iii) Other payables

	Group As at 31 December		Company As at 31 December	
	2006	2005	**2006**	2005
AEHC	**1,135**	1,048	**1,135**	1,048
BARD	**6,659**	4,122	**4,122**	4,122
XHMC	**6,000**	—	**—**	—
AKMP	**102**	—	**—**	—
State-owned Enterprises	**676**	500	**587**	500
	14,572	5,670	**5,844**	5,670

for the year ended 31 December 2006
(All amounts in Renminbi thousands unless otherwise stated)

35. Related party transactions (continued)

(iv) Long term payables to minority shareholders of subsidiaries

	Group As at 31 December		Company As at 31 December	
	2006	2005	**2006**	2005
AEHC	**—**	494,226	**—**	—
XHMC	**287,770**	260,430	**—**	—
	287,770	754,656	**—**	—

At 31st December 2006, amounts due from and due to the related parties, except for long term payables to minority shareholders of subsidiaries as disclosed in Note 20, mainly arose from the above transactions and payments made by the Company and related parties on behalf of each other. These amounts are unsecured, interest-free and are repayable within 1 year.

36 Events after the balance sheet date

On 16 March 2007, the Enterprise Income Tax Law (the "new EIT law") was passed at the Fifth Session of the Tenth National People's Congress of the People's Republic of China. The new EIT law will be effective as of 1 January 2008, and the "Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises" and "Provisional Regulations of the People's Republic of China on Enterprise Income Tax" both of which the Group was originally subjected to will be abrogated simultaneously. The Group has already commenced an assessment of the impact of the new EIT law but is not yet in a position to state the accurate impact on the Group's results of operations in the future.