

Notes to the Consolidated Financial Statements

For the year ended December 31, 2006

1. CORPORATE INFORMATION

Zhejiang Expressway Co. Ltd. (the “Company”) was established on March 1, 1997. The H shares of the Company (“H Shares”) were subsequently listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on May 15, 1997.

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

On July 18, 2000, with the approval of the Ministry of Foreign Trade and Economic Co-operation of the People’s Republic of China (the “PRC”), the Company changed its business registration into a Sino-foreign joint stock limited company.

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

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

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

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

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

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

- (a) the design, construction, operation, maintenance and management of high grade roads;
- (b) the development and provision of certain ancillary services such as advertising, automobile servicing and fuel facilities; and
- (c) the provision of securities broking services and proprietary trading.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (the “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “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 and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations other than HKFRS 8 and HK (IFRIC)-Int12 will have no material impact on the results and the financial position of the Group. The directors of the Company are in the process of assessing the impact of HKFRS 8 and HK (IFRIC)-Int 12 on the results and the financial position of the Group.

HKAS1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HKFRS 8	Operating Segments ²
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ³
HK(IFRIC)-Int 8	Scope of HKFRS 2 ⁴
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives ⁵
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment ⁶
HK(IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions ⁷
HK(IFRIC)-Int 12	Service Concession Arrangements ⁸

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

² Effective for annual periods beginning on or after January 1, 2009

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

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

⁵ Effective for annual periods beginning on or after June 1, 2006

⁶ Effective for annual periods beginning on or after November 1, 2006

⁷ Effective for annual periods beginning on or after March 1, 2007

⁸ Effective for annual periods beginning on or after January 1, 2008

Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES

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

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

BASIS OF CONSOLIDATION

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

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

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

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

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

BUSINESS COMBINATIONS

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, and liabilities incurred or assumed by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOODWILL

Goodwill arising on acquisitions prior to January 1, 2005

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

Previously capitalised goodwill arising on acquisitions of subsidiaries, is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on acquisitions on or after January 1, 2005

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS IN ASSOCIATES

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

NON-CURRENT ASSETS HELD FOR SALE

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION

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

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

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

Service income is recognised when services are provided.

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

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

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

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

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

EXPRESSWAY OPERATING RIGHTS

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (other than construction in progress) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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

	Estimated useful life	Annual depreciation rate
Buildings	30-50 years	1.9-3.2%
Toll stations and ancillary facilities	30 years	3.2%
Communications and signalling equipment	5 years	19.4%
Motor vehicles	5-8 years	12.1-19.4%
Machinery and equipment	5-8 years	12.1-19.4%

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

Construction in progress represents costs incurred in the construction of expressways and bridges, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on borrowed funds during the period of construction, installation and testing. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

PREPAID LEASE PAYMENTS

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

LEASING

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

The Group as lessor

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

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

FOREIGN CURRENCIES

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

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

BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

RETIREMENT BENEFIT COSTS

Payments to state-managed retirement benefit schemes which are defined contribution schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

TAXATION

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

INTANGIBLE ASSETS

Intangible assets acquired in a business combination

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

INTANGIBLE ASSETS (Continued)

Impairment

Intangible assets with indefinite useful lives are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

IMPAIRMENT LOSSES (OTHER THAN GOODWILL AND INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES (SEE THE ACCOUNTING POLICES IN RESPECT OF GOODWILL AND INTANGIBLE ASSETS ABOVE))

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

INVENTORIES

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2006

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS

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

Financial assets

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and loans to associates and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets held for trading

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Financial assets (Continued)

Available-for-sale financial assets

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

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

Financial liability and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

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

Equity instruments

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

Financial guarantee contracts

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

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

FINANCIAL INSTRUMENTS (Continued)

Derecognition

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

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

PROVISIONS

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

ESTIMATED IMPAIRMENT OF LOANS AND RECEIVABLES

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

ESTIMATED IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2006, the carrying amount of goodwill was Rmb91,428,000. Details of the recoverable amount calculation are disclosed in Note 19.

ESTIMATED IMPAIRMENT OF INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Determining whether intangible assets with indefinite useful lives are impaired requires an estimation of the value in use of themselves or the cash-generating unit to which they belong. The value in use calculation requires the Group to estimate the future cash flows expected to arise from themselves or the cash-generating unit to which they belong and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at December 31, 2006, the carrying amounts of intangible assets with indefinite useful lives were Rmb53,863,000. Details of the recoverable amount calculation are disclosed in Note 19.

5. FINANCIAL INSTRUMENTS

(A) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include available-for-sale investments, held-for-trading investments, loans to associates, trade and other receivables, bank balances held on behalf of customers, trade and other payables, amounts due to jointly controlled entities and ultimate holding company, dividend payable, interest-bearing bank and other loans, and long-term bonds. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank and other loans, and long-term bonds (see Notes 33 and 35 for details of these borrowings).

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

Currency risk

The Group has long-term borrowings denominated in United States dollars ("USD"), which exposes the Group to foreign currency risk.

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

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5. FINANCIAL INSTRUMENTS (Continued)

(A) FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Market risk (Continued)

Price risk

The Group's held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity and debt security price risk.

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

Credit risk

As at December 31, 2006, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees issued by the Group arising from:

- the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet; and
- the amount of contingent liabilities disclosed in Note 42.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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

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

Liquidity risk

Most of the bank balances and cash at December 31, 2006 were denominated in Rmb which is not a freely convertible currency in the international market. The exchange rate of Rmb is determined by the PRC government and the remittance of these Rmb funds out of the PRC is subject to foreign exchange controls imposed by the PRC government.

The Group closely monitors its cash position resulting from its operations and the directors consider that the Group has sufficient liquid assets generated from its operations to enable the Group to meet in full its financial obligations as they fall due for the foreseeable future.

5. FINANCIAL INSTRUMENTS (Continued)

(B) FAIR VALUE

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets and determined with reference to quoted market bid prices and ask prices respectively; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

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

6. SEGMENT INFORMATION

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

BUSINESS SEGMENTS

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

- Toll operation represents the design, construction, operation and management of high grade roads and the collection of the expressway tolls.
- Service area businesses mainly represent the sale of food, restaurant operation, automobile servicing as well as the operation of petrol stations.
- Advertising business represents the design and rental of advertising billboards along the expressways.
- Road maintenance represents the maintenance of expressways and roads, including the cleaning of the road surface, minor repairs to the lanes, the cleaning of the gutters and sewers, grass mowing, afforestation and maintenance service provided to third parties in respect of buildings, equipment and facilities.
- Securities operation represents securities broking and proprietary trading. Securities operation was newly acquired in 2006. For details, please refer to Note 38.

Segment information about these businesses is presented below.

Notes to the Consolidated Financial Statements

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6. SEGMENT INFORMATION (Continued)

BUSINESS SEGMENTS (Continued)

	Toll operation		Service area businesses		Advertising business		Road maintenance		Securities operation		Others		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
REVENUE														
Revenue, net of revenue taxes	3,562,289	3,182,807	962,418	225,702	50,239	45,374	5,464	2,502	183,370	—	—	—	4,763,780	3,456,385
Other income	75,159	100,122	44,640	82,996	2,642	2,829	—	—	81,611	—	—	—	203,952	185,947
Total revenue	3,637,448	3,282,929	1,006,958	308,698	52,881	48,203	5,464	2,502	264,981	—	—	—	4,967,732	3,642,332
RESULT														
Segment results	2,533,798	2,255,306	66,178	71,225	11,166	15,130	5,464	842	170,533	—	—	—	2,787,139	2,342,503
Finance costs														
Share of (loss) profit of associates	(2,064)	(2,786)	9,666	11,407	(28)	—	—	—	—	—	(3,139)	(1,404)	(71,991)	(101,343)
Share of profit of a jointly controlled entity	23,344	16,285	—	—	—	—	—	—	—	—	—	—	4,435	7,217
Profit before tax													23,344	16,285
Income tax expense													(884,036)	(692,366)
Profit for the year													1,858,891	1,572,296
BALANCE SHEET														
Segment assets	15,430,239	15,811,577	221,950	128,521	83,718	64,780	—	—	3,521,673	—	—	—	19,257,580	16,004,878
Interests in associates	53,914	35,000	149,479	146,677	497	—	—	—	—	—	20,967	45,194	224,857	226,871
Interest in a jointly controlled entity	87,982	79,907	—	—	—	—	—	—	—	—	—	—	87,982	79,907
Consolidated total assets													19,570,419	16,311,656
Segment liabilities	1,090,699	1,061,037	91,387	5,504	47,366	28,978	—	—	2,644,557	—	—	—	3,874,009	1,095,519
Bank and other loans													845,407	1,434,737
Long-term bonds													1,000,000	1,000,000
Dividend payable													41,595	33,379
Deferred tax liabilities													456,956	384,153
Consolidated total liabilities													6,217,967	3,947,788
OTHER INFORMATION														
Capital expenditure	657,399	1,370,356	17,075	14,449	16,678	8,974	—	—	9,560	—	468,900	—	1,169,612	1,393,779
Depreciation and amortisation	595,170	532,166	12,495	6,781	4,123	4,768	—	—	11,651	—	—	—	623,439	543,715
Loss on disposal of property, plant and equipment	1,480	158	1,806	7	156	353	—	—	769	—	—	—	4,211	518
Operating lease rentals in respect of land use rights	18,134	18,138	—	—	—	—	—	—	246	—	—	—	18,380	18,138

7. REVENUE AND OTHER INCOME

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

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

	2006 Rmb'000	2005 Rmb'000
Toll operation revenue	3,562,289	3,182,807
Service area businesses revenue	962,418	225,702
Advertising business revenue	50,239	45,374
Road maintenance revenue	5,464	2,502
Securities operation revenue	183,370	—
Total revenue	4,763,780	3,456,385
Gain on fair value changes on held-for-trading investments	80,421	33,982
Interest income	26,481	40,151
Net exchange gain	22,299	18,461
Towing income	21,691	20,318
Rental income	21,362	45,341
Others	31,698	27,694
Total other income	203,952	185,947
	4,967,732	3,642,332

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

- city development tax, levied at 1% to 7% of business tax;
- education surcharge, levied at 2% to 5% of business tax; and
- culture and education fund, levied at 3% on advertising income.

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8. FINANCE COSTS

	2006 Rmb'000	2005 Rmb'000
Interest on bank loans wholly repayable within five years	13,896	29,768
Interest on other loans	31,505	34,528
Interest on long-term bonds	42,900	42,900
Total borrowing costs	88,301	107,196
Less: amount capitalised	(16,310)	(5,853)
	71,991	101,343

9. PROFIT BEFORE TAX

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

	2006 Rmb'000	2005 Rmb'000
Depreciation of property, plant and equipment	623,439	535,015
Operating lease rentals in respect of land use rights (included in operating costs)	18,380	18,138
Amortisation of expressway operating rights (included in operating costs)	8,700	8,700
Amortisation of other intangible assets (included in operating costs)	3,133	—
Loss on disposal of property, plant and equipment	4,211	518
Auditors' remuneration	3,671	2,165
Staff costs (including directors and supervisors):		
– Wages and salaries	171,629	138,678
– Pension scheme contributions	20,764	10,419
	192,393	149,097
Cost of inventories recognised as an expense	845,818	158,391
Share of tax of associates (included in share of profit of associates)	4,918	6,717
Share of tax of a jointly controlled entity (included in share of profit of a jointly controlled entity)	11,662	8,181

10. INCOME TAX EXPENSE

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

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

	2006 Rmb'000	2005 Rmb'000
Current PRC income tax	876,874	654,471
Deferred tax (Note 38)	7,162	37,895
	884,036	692,366

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

	2006		2005	
	Rmb'000	%	Rmb'000	%
Profit before tax	2,742,927		2,264,662	
Tax at the PRC statutory income tax rate	905,166	33.0	747,338	33.0
Tax effect of share of profits of associates	(1,464)	(0.1)	(2,382)	(0.1)
Tax effect of share of profit of a jointly controlled entity	(7,703)	(0.3)	(5,374)	(0.2)
Effect of tax exemption granted to a subsidiary	—	—	(51,408)	(2.3)
Tax effect of income not taxable for tax purposes	(22,118)	(0.8)	(12,337)	(0.5)
Tax effect of expenses not deductible for tax purposes	10,155	0.4	16,529	0.7
Tax charge and effective tax rate for the year	884,036	32.2	692,366	30.6

In 2005, in accordance with the approval from the Zhejiang Provincial Local Tax Bureau, Zhejiang Shangsang Expressway Co., Ltd. ("Shangsang Co"), one of the Company's subsidiaries, was entitled to a 30% EIT exemption for the year ended December 31, 2005 under the category of "Enterprises providing employment opportunities to redundant workers with an employment term of a minimum of three years" as defined in the relevant national tax rules. As a result, the tax exemption for the year ended December 31, 2005 amounted to Rmb51,408,000 had been applied directly to reduce the EIT for 2005.

No such exemption has been granted to the Group in 2006.

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For the year ended December 31, 2006

11. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments paid or payable to each of the 10 (2005: 9) directors and 5 (2005: 4) supervisors were as follows:

	Geng Xiaoping Rmb'000	Fang Yunti Rmb'000	Xuan [^] Daoguang Rmb'000	Zhang Jingzhong Rmb'000	Jiang Wenyao Rmb'000	Zhang Luyun Rmb'000	Zhang Yang Rmb'000	Tung [^] Chee Chen Rmb'000	Zhang [^] Junsheng Rmb'000	Zhang [^] Liping Rmb'000	Ma [^] Kehua Rmb'000	Fang [^] Zheping Rmb'000	Zheng [^] Qihua Rmb'000	Jiang [^] Shaohong Rmb'000	Wu [^] Yongmin Rmb'000	Total Rmb'000
2006																
Salaries, allowances and benefits in kind	535	416	27	339	364	5	4	202	54	202	1	2	1	2	3	2,157
Bonuses paid and payable	352	261	72	244	219	—	—	—	—	—	—	—	—	—	—	1,148
Pension scheme contributions	12	12	—	12	12	—	—	—	—	—	—	—	—	—	—	48
Total emoluments	899	689	99	595	595	5	4	202	54	202	1	2	1	2	3	3,353
2005																
Salaries, allowances and benefits in kind	606	461	403	252	—	4	3	152	33	151	3	4	3	3	—	2,078
Bonuses paid and payable	265	203	173	111	—	—	—	—	—	—	—	—	—	—	—	752
Pension scheme contributions	11	11	8	—	—	—	—	—	—	—	—	—	—	—	—	30
Total emoluments	882	675	584	363	—	4	3	152	33	151	3	4	3	3	—	2,860

[^] Past director

* Independent non-executive directors

Supervisors

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

No directors or supervisors waived any emoluments during both years.

12. EMPLOYEES' EMOLUMENTS

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

	2006 Rmb'000	2005 Rmb'000
Salaries, allowances and benefits in kind	1,957	2,056
Bonuses paid and payable	1,263	899
Pension scheme contributions	60	41
	3,280	2,996

The five individuals with the highest emoluments in the Group during the year included four (2005: four) directors, whose emoluments are set out in Note 11 above, as well as a non-director employee, whose emoluments for the year was less than HK\$1,000,000 (equivalent to Rmb1,040,000).

13. DIVIDENDS

The final dividend of Rmb20 cents (2005: Rmb15 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on profit for the year attributable to equity holders of the Company of Rmb1,652,871,000 (2005: Rmb1,431,192,000) and the 4,343,114,500 (2005: 4,343,114,500) ordinary shares in issue during the year.

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

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For the year ended December 31, 2006

15. PROPERTY, PLANT AND EQUIPMENT

	Expressways and bridges Rmb'000	Buildings Rmb'000	Toll stations and ancillary facilities Rmb'000	Communi- cations and signalling equipment Rmb'000	Motor vehicles Rmb'000	Machinery and equipment Rmb'000	Construction in progress Rmb'000	Total Rmb'000
COST								
At January 1, 2005	11,519,106	—	371,664	322,752	123,573	164,145	1,334,658	13,835,898
Additions	6,939	—	6,149	13,431	13,589	39,597	1,314,074	1,393,779
Transfers	1,682,484	—	11,817	166	—	3,940	(1,698,407)	—
Reclassifications	—	—	37	4,274	450	(4,761)	—	—
Disposals	—	—	—	(946)	(2,860)	—	—	(3,806)
At December 31, 2005	13,208,529	—	389,667	339,677	134,752	202,921	950,325	15,225,871
Additions	2,410	—	5,618	10,991	10,971	39,161	633,369	702,520
Acquired on acquisition of a subsidiary	—	272,520	—	—	4,775	20,847	—	298,142
Non-current assets classified as held-for-sale	—	—	—	—	(195)	(84)	—	(279)
Transfers	75,349	—	35,256	—	—	1,596	(112,201)	—
Reclassifications	—	64,676	(54,064)	(15,753)	(228)	5,369	—	—
Disposals	(16,102)	(1,804)	(11,946)	(8,336)	(7,598)	(15,152)	—	(60,938)
At December 31, 2006	13,270,186	335,392	364,531	326,579	142,477	254,658	1,471,493	16,165,316
DEPRECIATION								
At January 1, 2005	878,146	—	64,936	188,843	68,346	70,692	—	1,270,963
Provided for the year	455,862	—	12,393	40,401	11,128	15,231	—	535,015
Reclassifications	—	—	(275)	124	4	147	—	—
Disposals	—	—	—	(493)	(2,219)	—	—	(2,712)
At December 31, 2005	1,334,008	—	77,054	228,875	77,259	86,070	—	1,803,266
Provided for the year	526,239	5,127	18,562	37,311	13,740	22,460	—	623,439
Reclassifications	(54)	12,482	(12,394)	(3,090)	(99)	3,155	—	—
Transfers	—	—	—	—	—	—	—	—
Disposals	1,523	(1,206)	(8,953)	(7,841)	(6,959)	(10,528)	—	(37,010)
At December 31, 2006	1,858,670	16,403	74,269	255,255	83,941	101,157	—	2,389,695
CARRYING VALUES								
At December 31, 2006	11,411,516	318,989	290,262	71,324	58,536	153,501	1,471,493	13,775,621
At December 31, 2005	11,874,521	—	312,613	110,802	57,493	116,851	950,325	13,422,605

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

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The carrying value of properties shown above comprises:

	2006 Rmb'000	2005 Rmb'000
Land in the PRC:		
Long lease	11,947	—
Medium-term lease	307,042	—
	318,989	—

16. PREPAID LEASE PAYMENTS

	2006 Rmb'000	2005 Rmb'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC:		
Medium-term lease	409,284	405,586
Analysed for reporting purposes as:		
Current assets	18,626	18,138
Non-current assets	390,658	387,448
	409,284	405,586

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

17. GOODWILL

	Rmb'000
COST	
At January 1, 2005 and January 1, 2006	85,472
Arising on acquisition of a subsidiary	5,956
At December 31, 2006	91,428

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

Notes to the Consolidated Financial Statements

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18. OTHER INTANGIBLE ASSETS

	Customer base Rmb'000	Securities firm license Rmb'000	Trading seats Rmb'000	Total Rmb'000
COST				
At January 1, 2005 and January 1, 2006	—	—	—	—
Acquired on acquisition of a subsidiary	93,997	51,783	2,080	147,860
At December 31, 2006	93,997	51,783	2,080	147,860
AMORTISATION				
At January 1, 2005 and January 1, 2006	—	—	—	—
Charge for the year	3,133	—	—	3,133
At December 31, 2006	3,133	—	—	3,133
CARRYING VALUES				
At December 31, 2006	90,864	51,783	2,080	144,727
At December 31, 2005	—	—	—	—

The above intangible assets were purchased as part of a business combination during the year.

The customer base of the securities operation has a definite useful life. It is amortised on a straight-line basis over 15 years.

The securities firm license of the securities operation is considered by the management of the Group to be have an indefinite useful life because it can be renewed at minimal cost even though the current license is effective for three years.

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

Particulars of the impairment testing are disclosed in Note 19.

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

As explained in Note 6, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill and other intangible assets with indefinite useful lives set out in Notes 17 and 18 have been allocated to three individual cash generating units (CGUs), including two subsidiaries in toll operation segment and one subsidiary in securities operation segment. The carrying amounts of goodwill and other intangible assets as at December 31, 2006 allocated to these units are as follows:

	Goodwill Rmb'000	Securities firm license Rmb'000	Trading seats Rmb'000
Toll operation			
- Zhejiang Jiaying Expressway Co., Ltd. ("Jiaying Co")	75,137	—	—
- Zhejiang Shangsang Expressway Co., Ltd ("Shangsang Co")	10,335	—	—
Securities operation			
- Zheshang Securities Co., Ltd. ("Zheshang Securities")	5,956	51,783	2,080
	91,428	51,783	2,080

During the year ended December 31, 2006, the management of the Group determines that there has been no impairment of any of its CGUs containing goodwill or other intangible assets with indefinite useful lives.

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

Jiaying Co and Shangsang Co

The recoverable amounts of Jiaying Co and Shangsang Co are determined based on value in use calculations. The key assumptions for the value in use calculations relate to discount rates, growth rates, and expected changes in toll revenue and direct costs during the period. Those calculations use cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 15%. No growth rate has been assumed beyond the five-year period.

Zheshang Securities

The recoverable amount of Zheshang Securities is determined based on value in use calculations. The key assumptions for the value in use calculations relate to the discount rate, growth rates and profit margin during the period. Those calculations use cash flow projections based on financial budgets approved by management covering a four-year period and a discount rate of 23.5%. No growth rate has been assumed beyond the four-year period.

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20. INTERESTS IN ASSOCIATES

	2006 Rmb'000	2005 Rmb'000
Unlisted investments in associates, at cost	184,996	189,471
Share of post-acquisition profits, net of dividends received	39,861	42,704
	224,857	232,175
Amount due from an associate	—	(5,304)
	224,857	226,871

The amount due to an associate was unsecured, interest-free and repayable on demand.

At December 31, 2006, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of registration and operation	Percentage of equity interest attributable to the Group		Principal activities
			2006 %	2005 %	
Zhejiang Expressway Petroleum Development Co., Ltd. ("Petroleum Co")	Corporate	The PRC	50	50	Construction and operation of petrol stations and sale of petroleum products
JoinHands Technology Co., Ltd. ("JoinHands Co")	Corporate	The PRC	27.58	27.58	Provision of logistics services and anti-counterfeiting systems in the PRC
Zhejiang Concord Property Investment Co., Ltd. ("Concord Co")	Corporate	The PRC	22.95	22.95	Investment and real estate development
Hangzhou Yuhang Communication Time Plaza Co., Ltd.	Corporate	The PRC	15.3	15.3	Investment and real estate development
Zhejiang Jiashao Expressway Co., Ltd. ("Jiashao Co")	Corporate	The PRC	35	35	Construction and management of the Jiashao Expressway
Ningbo Expressway Advertising Co., Ltd.	Corporate	The PRC	12.5	—	Management of advertising billboards along expressways

20. INTERESTS IN ASSOCIATES (Continued)

- Notes: (i) Concord Co is a 45%-owned associate of Zhejiang Expressway Investment Development Co., Ltd ("Development Co"), a 51%-owned subsidiary of the Company.
- (ii) Time Plaza Co is a 30%-owned associate of Zhejiang Yuhang Expressway Co., Ltd ("Yuhang Co"), a 51%-owned subsidiary of the Company.
- (iii) Ningbo Advertising Co is a 35%-owned associate of Zhejiang Expressway Advertising Co., Ltd ("Advertising Co"), a 70%-owned subsidiary of Development Co.

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

	2006 Rmb'000	2005 Rmb'000
Total assets	13,290,436	1,074,162
Total liabilities	(722,450)	(478,508)
Net assets	567,986	595,654
Group's share of net assets of associates	224,857	232,175
Revenue	2,642,196	1,877,952
Profit for the year	28,966	37,281
Group's share of results of associates for the year	4,435	7,217

21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2006 Rmb'000	2005 Rmb'000
Unlisted investment in a jointly controlled entity, at cost	65,000	65,000
Share of post-acquisition profits, net of dividends received	28,823	20,202
	93,823	85,202
Amount due to a jointly controlled entity	(5,841)	(5,295)
	87,982	79,907

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

At December 31, 2006, the Group had interests in the following jointly controlled entity:

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

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21. INTEREST IN A JOINTLY CONTROLLED ENTITY (Continued)

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

	2006 Rmb'000	2005 Rmb'000
Current assets	13,629	10,553
Non-current assets	154,019	160,847
Current liabilities	(69,089)	(81,276)
Non-current liabilities	(4,736)	(4,922)
Income	49,160	42,247
Expenses	25,816	25,962

22. AVAILABLE-FOR-SALE INVESTMENTS

	2006 Rmb'000	2005 Rmb'000
Unlisted equity investments, at cost	1,000	1,000

The above unlisted investments represent investments in unlisted equity securities issued by private entities established in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimated is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

23. EXPRESSWAY OPERATING RIGHTS

	Rmb'000
COST	
At January 1, 2005, December 31, 2005 and December 31, 2006	261,000
AMORTISATION	
At January 1, 2005	63,755
Charge for the year	8,700
At December 31, 2005	72,455
Charge for the year	8,700
At December 31, 2006	81,155
CARRYING VALUES	
At December 31, 2006	179,845
At December 31, 2005	188,545

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

24. LOAN TO AN ASSOCIATE

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

25. TRADE RECEIVABLES

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

	2006 Rmb'000	2005 Rmb'000
Within 1 year	52,773	20,470
1 to 2 years	471	1,274
Over 2 years	1,207	—
	54,451	21,744

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26. OTHER RECEIVABLES

	2006 Rmb'000	2005 Rmb'000
Deposits and other debtors (Note)	163,495	34,445
Prepayments	17,019	21,793
Entrusted loan to a related party (Note 44(a))	—	260,000
	180,514	316,238

Note: Included in deposits and other debtors at December 31, 2006 was capital contribution into Zheshang Securities on behalf of certain equity holders of Rmb131.1 million. For details, please refer to Note 38.

27. HELD-FOR-TRADING INVESTMENTS

	2006 Rmb'000	2005 Rmb'000
Listed securities in the PRC, at fair value:		
Equity securities	226,586	—
Open-end equity funds	3,294	—
Government bonds	—	588,137
Close-end equity funds	—	23,960
	229,880	612,097

28. BANK BALANCES HELD ON BEHALF OF CUSTOMERS

From its securities operation, the Group receives and holds money deposited by customers and other institutions in the course of the conduct of its securities broking activities. These customers' money are maintained in one or more segregated bank accounts. The Group has recognised the corresponding trade payable to respective customers and other institutions.

Bank balances held on behalf of customers carry interest at market rates which range from 0.99% to 1.62%.

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

	HKD Rmb'000	USD Rmb'000
As at December 31, 2006	4,880	14,055
As at December 31, 2005	—	—

29. BANK BALANCES AND CASH

	2006 Rmb'000	2005 Rmb'000
Unrestricted bank balances and cash	1,275,690	569,431
Restricted bank balance (Note)	35,000	—
Time deposits with original maturity of less than three months when acquired	228,383	154,082
Time deposits with original maturity over three months when acquired	131,312	105,632
	1,670,385	829,145

Note: Included in bank balances at December 31, 2006 was an amount of Rmb35,000,000 which had been frozen by China Securities Depository and Clearing Corporation Limited Shanghai Branch in connection with a guarantee issued by Zheshang Securities, a subsidiary acquired during the year. For details, please refer to Note 34.

Bank balances carrying interest at market rates which range from 0.72% to 1.44%. Time deposits carry fixed interest rates ranging from 1.62 to 2.5%.

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

	HKD Rmb'000	USD Rmb'000
As at December 31, 2006	1,546	8,661
As at December 31, 2005	58	2

30. TRADE PAYABLES

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

	2006 Rmb'000	2005 Rmb'000
Within 1 year	357,172	368,672
1 to 2 years	11,323	26,786
2 to 3 years	714	3,211
Over 3 years	114	3,552
	369,323	402,221

31. TRADE PAYABLE TO CUSTOMERS ARISING FROM SECURITIES DEALING BUSINESS

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

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For the year ended December 31, 2006

32. OTHER PAYABLES AND ACCRUALS

	2006 Rmb'000	2005 Rmb'000
Accruals	56,999	80,277
Other liabilities	350,142	232,444
Amounts due to related parties (Note 36)	—	12,151
Amount due to ultimate holding company (Note 37)	2,599	2,599
	409,740	327,471

The amounts due to related parties controlled by the communications Investment Group were unsecured, interest-free and repayable on demand.

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

33. INTEREST-BEARING BANK AND OTHER LOANS

	2006 Rmb'000	2005 Rmb'000
Bank loans, unsecured	125,000	630,000
Other loans, unsecured	720,407	804,737
	845,407	1,434,737
Bank loans repayable:		
Within one year	125,000	630,000
Other loans repayable:		
Within one year	272,141	256,540
In the second year	91,275	87,871
In the third to fifth years, inclusive	291,448	289,744
Beyond five years	65,543	170,582
	720,407	804,737
	845,407	1,434,737
Less: Amount due within one year shown under current liabilities	(397,141)	(886,539)
	448,266	548,198

The bank loans carry fixed interest at rates ranging from 5.02% to 5.58% per annum.

The other loans carry fixed interest at rates ranging from 3.00% to 5.16% per annum and are repayable by semi-annual instalments, with the last instalment to fall due in October 2015.

The bank and other loans of the Group that are denominated in currencies other than Rmb amounted to Rmb657,807,000 (USD84,240,000) as at December 31, 2006 (2005: Rmb732,137,000 (USD90,721,000)).

34. PROVISIONS

Provision represents the obligation of Zheshang Securities, a subsidiary acquired during the year, under guarantees issued in respect of the state bond investment agency agreements and fund trust agreements entered into between Kinghing Trust Investment Co., Ltd. ("Kinghing Investment"), the former majority equity owner of Zheshang Securities, and its corporate customers. As Kinghing Investment have ceased its operations and its restructuring is underway, the directors consider that it is probable that such guarantees will be exercised. As a result, a full provision has been made by Zheshang Securities prior to its acquisition. For details, please refer to Note 42.

35. LONG-TERM BONDS

	2006 Rmb'000	2005 Rmb'000
Long-term bonds – listed in the PRC	1,000,000	1,000,000

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

In the opinion of the directors, the fair value of the long-term bonds estimated by discounting their future cash flows at the prevailing market borrowing rate for similar borrowings of 5% at the balance sheet date approximates their carrying amount.

36. DEFERRED TAXATION

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

	Non-deductible loss on disposal of property, plant and equipment Rmb'000	Revaluation of held-for-trading investments Rmb'000	Accelerated tax depreciation Rmb'000	Fair value adjustments (Note 38) Rmb'000	Total Rmb'000
At January 1, 2005	(38,319)	(4,210)	388,787	—	346,258
Charge (credit) to income statement for the year (Note 10)	38,319	7,176	(7,600)	—	37,895
At December 31, 2005	—	2,966	381,187	—	384,153
Acquisition of a subsidiary	—	8,633	—	57,008	65,641
Charge (credit) to income statement for the year (Note 10)	—	17,344	(9,021)	(1,161)	7,162
At December 31, 2006	—	28,943	372,166	55,847	456,956

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For the year ended December 31, 2006

37. SHARE CAPITAL

	Number of shares		Share capital	
	2006	2005	2006 Rmb'000	2005 Rmb'000
Registered, issued and fully paid:				
Domestic shares of Rmb1.00 each	2,909,260,000	2,909,260,000	2,909,260	2,909,260
H Shares of Rmb1.00 each	1,433,854,500	1,433,854,500	1,433,855	1,433,855
	4,343,114,500	4,343,114,500	4,343,115	4,343,115

There were no movements in share capital during both years.

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

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

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

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

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

38. ACQUISITION OF A SUBSIDIARY

In order to prevent the potential loss of its state bonds held with Zheshang Securities (formerly known as Kinghing Securities Co., Ltd.), which had been pledged as security for certain third party repo transactions and the funds obtained misappropriated by Kinghing Investment, the Company decided to acquire 70.46% equity interest in Zheshang Securities via Shangsang Co and participate in its restructuring. Under the restructuring, Shangsang Co injected Rmb600 million additional capital into Zheshang Securities for itself and on behalf of other equity holders in proportion to their respective interests in Zheshang Securities. Certain equity holders have provided undertakings in writing to Shangsang Co to repay Shangsang Co the capital contributed by Shangsang Co on their behalf amounting to Rmb131.1 million (included in other receivables (see Note 26)) by assigning to Shangsang Co their rights to receive future dividends from Zheshang Securities until their repayment obligations are discharged in full. The remaining capital contribution of Rmb468.9 million represents the consideration for Shangsang's acquisition of 70.46% equity interest in Zheshang Securities.

Upon receipt of the Rmb600 million capital contribution, Zheshang Securities accounted for it as capital reserve. The aforementioned repo transactions were subsequently settled, the security over the Company's state bonds released and the state bonds fully recovered.

38. ACQUISITION OF A SUBSIDIARY (Continued)

The acquisition was approved by the China Securities Regulatory Commission on June 14, 2006. The Group assumed control over Zheshang Securities with effect from July 1, 2006, when an extraordinary general meeting of equity holders was held to approve the new articles of association and to elect representatives of the Group onto a new session of the board of directors.

This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was Rmb5,956,000.

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

	Acquiree's carrying amount before combination Rmb'000	Fair value adjustments Rmb'000	Fair value Rmb'000
Net assets acquired:			
Property, plant and equipment	213,251	84,891	298,142
Prepaid lease payments	22,078	—	22,078
Other intangible assts	20,722	127,138	147,860
Other receivables	8,553	—	8,553
Held-for-trading investments	63,030	—	63,030
Bank balances held on behalf of customers	2,252,727	—	2,252,727
Bank balances and cash	290,749	—	290,749
Trade payable to customers arising from securities dealing business	(2,248,089)	—	(2,248,089)
Tax liabilities	(38,562)	—	(38,562)
Other taxes payable	(1,363)	—	(1,363)
Other payables and accruals	(37,467)	—	(37,467)
Provisions	(34,800)	—	(34,800)
Deferred tax liabilities	(8,633)	(57,008)	(65,641)
	502,196	155,021	657,217
Minority interests			(194,273)
Goodwill arising on acquisition			5,956
Total consideration, satisfied by cash			468,900
Net cash inflow (outflow) arising on acquisition:			
Cash consideration paid			(468,900)
Bank balances and cash acquired, net of restricted bank balances of Rmb35,000,000 (Note 29)			255,749
			213,151

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

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

Notes to the Consolidated Financial Statements

For the year ended December 31, 2006

38. ACQUISITION OF A SUBSIDIARY (Continued)

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

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

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	NOTES	2006 Rmb'000	2005 Rmb'000
Profit before tax		2,742,927	2,264,662
Adjustments for:			
Share of profit of associates		(4,435)	(7,217)
Share of profit of a jointly-controlled entity		(23,344)	(16,285)
Depreciation of property, plant and equipment		623,439	535,015
Amortisation of other intangible assets		3,133	—
Operating lease rentals in respect of land use rights		18,380	18,138
Amortisation of expressway operating rights		8,700	8,700
Interest income		(26,481)	(40,151)
Finance costs		71,991	101,343
Dividend income		(100)	—
Gain on fair value changes on held-for-trading investments		(72,302)	(20,187)
Net exchange gain		(22,299)	(18,461)
Loss on disposal of property, plant and equipment		4,211	518
Operating cash flows before movements in working capital		3,323,820	2,826,075
Increase in inventories		(5,809)	(30)
(Increase) decrease in trade receivables		(32,837)	4,825
Decrease (increase) in other receivables		16,637	(258,672)
Increase in held-for-trading investments		(99,532)	—
Increase in bank balances held on behalf of customers		(255,036)	—
(Increase) decrease in amount due from an associate		—	(2,775)
(Decrease) in amount due to an associate		(5,304)	—
(Decrease) increase in trade payables		(32,083)	49,917
(Decrease) increase in other taxes payable		(12,843)	7,436
Increase (decrease) in other payables and accruals		63,015	(31,606)
Increase in amount due to a jointly-controlled entity		546	1,182
Increase in trade payable to customers arising from securities dealing business		253,504	—
Cash generated from operations		3,214,078	2,596,352
Interest paid		(88,301)	(107,196)
Income taxes paid		(712,219)	(505,905)
Net cash from operating activities		2,413,558	1,983,251

40. RETIREMENT BENEFITS SCHEMES

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

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

41. CAPITAL COMMITMENTS

	2006 Rmb'000	2005 Rmb'000
Contracted for but not provided for in the consolidated financial statements:		
– Proposed capital injection into Jiashao Co	1,110,375	1,110,375
– Construction of expressways	1,010,014	1,458,933
– Proposed acquisition of additional interest in Shangsan Co	485,000	485,000
– Proposed investment in Zhejiang Jinhua Yongjin Expressway Co., Ltd. (“Jinhua Co”) (Note 45)	281,400	—
– Renovation of service areas	4,256	—
– Office decoration	1,939	—
	2,892,984	3,054,308
Authorised but not contracted for:		
– Construction of expressways	855,340	945,277
– Purchase of machinery	80,000	87,250
– Renovation of service areas	45,000	—
	980,340	1,032,527

42. CONTINGENT LIABILITIES

Fourteen customers of Zheshang Securities previously entered into state bond investment agency agreements with Kinghing Investment, whereby Zheshang Securities kept in custody state bonds in an aggregate principal amount of Rmb106.5 million. These state bonds were pledged as security for certain third party repo trading transactions and the funds obtained were misappropriated by Kinghing Investment. Kinghing Investment was unable to return the misappropriated funds in time and as a result, the security over the state bonds was enforced to settle the relevant repo trading transactions.

In the opinion of directors, Kinghing Investment should take full responsibility for breach of the state bond investment agency agreements. Currently, Kinghing Investment has ceased its operations and its restructuring is underway. It is understood that the 14 customers have already registered their claims with Kinghing Investment's restructuring team. At the date of this report, one of the 14 customers has started legal proceedings against Zheshang Securities for disputes over the state bond investment agency agreement.

Notes to the Consolidated Financial Statements

For the year ended December 31, 2006

42. CONTINGENT LIABILITIES (Continued)

After consultation with their legal advisors and other legal experts, the directors believe that, from a legal point of view, Zheshang Securities should not take any legal responsibility, whether or not all the 14 customers choose to take them to court. However, one should not rule out the possibility that the court may, after considering, inter alia, Zheshang Securities role in the performance of the state bond investment agency agreements, request Zheshang Securities to share part of the liability. The impact to the consolidated financial statements as whole is not expected to be material though should this situation arises.

In addition, a full provision has been made for guarantees issued in respect of the state bond investment agency agreements and fund trust agreements entered into between Kinghing Investment and its corporate customers. For details, please refer to Note 34.

No provision has been made for guarantees amounting to Rmb17.8 million issued in respect of the fund trust agreements entered into between Kinghing Investment and its individual customers because (i) these individuals have already registered their claims with Kinghing Investment's restructuring team; and (ii) under the relevant state policies, these individuals are expected to be compensated for their loss in principal in full by the state.

43. OPERATING LEASES

THE GROUP AS LESSOR

The Group leased their service areas and communication cables under operating lease arrangements, with negotiated terms ranging from one to 25 years. Rental income comprises a base amount plus an contingent rental. Contingent rent is based on the sales volume of the lessee. Contingent rent income for the year ended December 31, 2006 amounted to nil (2005: Rmb11,723,000).

At December 31, 2006, the Group had contracted with tenants for the following future minimum lease payments:

	2006 Rmb'000	2005 Rmb'000
Within one year	12,742	19,395
In the second to fifth years inclusive	17,218	43,728
After five years	28,688	28,659
	58,648	91,782

44. RELATED PARTY TRANSACTIONS

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

- (a) On November 17, 2005, the Group signed an entrusted loan contract with Zhejiang Jinji Property Co., Ltd ("Jinji Co"), a subsidiary of the Communications Investment Group, via Bank of Communications. Pursuant to the contract, the Communications Investment Group agreed to provide a half-year loan of Rmb260,000,000 to Jinji Co via the bank at an interest rate of 6.55% per annum. The entrusted loan was guaranteed by the Communications Investment Group. The entrusted loan was repaid on April 29, 2006.
- (b) Pursuant to the resolutions of the equity holders of Development Co. on December 28, 2005, Development Co entrusted China Everbright Bank Hangzhou Zhaohui Branch to provide a loan of Rmb50,000,000 to Concord Co, an associate of the Group, from January 5, 2006 to January 5, 2007 at an interest rate of 10% per annum. The loan was repaid on June 20, 2006. Pursuant to the resolutions of the equity holders of Development Co on December 28, 2006, Development Co entrusted China Everbright Bank Hangzhou Zhaohui Branch to provide a loan of Rmb46,000,000 to Concord Co from January 23, 2006 to January 23, 2007. The loan was repaid on June 29, 2006.
- (c) During 2006, Development Co and Petroleum Co entered into an operation management agreement in respect of the petrol stations in the service areas along the Huhangyong and Shangsang Expressways. Pursuant to the agreement, Petroleum Co will run the six petrol stations owned by Development Co along the Huhangyong and Shangsang Expressways and the soon-to-be completed Changan Service Area petrol station. Purchases of petroleum products from Petroleum Co during 2006 amounted to Rmb734,160,000.
- (d) See notes 20, 21 and 32 for details of balances with associates, jointly controlled entity and other related parties respectively.

Transactions and balances with other state-controlled entities in the PRC

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

Notes to the Consolidated Financial Statements

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44. RELATED PARTY TRANSACTIONS (Continued)

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

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

45. POST BALANCE SHEET EVENTS

The following significant events took place subsequent to December 31, 2006:

- (i) On March 10, 2007, the Company entered into an equity purchase agreement with Jinhua Municipal Road Management Office and Dongyang Municipal Communications Investment Co., Ltd. to acquire from them an aggregate of 23.45% equity interests in Jinhua Co for a consideration of Rmb281,400,000. Jinhua Co owns 100% interest in the Jinhua section of the Yongjin Expressway, which runs 69.7km and commenced operation on December 28, 2005.
- (ii) In March 2007, Shanghai Kinghing Securities Research Institute Co., Ltd., a subsidiary of Zheshang Securities, was sold for Rmb1,150,000.
- (iii) The Company plans to dispose of its 27.58% equity interest in JoinHands Co at the property exchange centre in accordance with the relevant rules and regulations on state-owned asset management. On April 19, 2007, the Company entered into an equity transfer agreement with Guangzhou Zhongda Kaisi Group Co., Ltd. ("Zhongda Kaisi") whereby Zhongda Kaisi has undertaken to bid for such equity interest at the property exchange centre at a price no less than its valuation to be determined by an accredited valuer.

46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Date and place of registration	Registered capital Rmb	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Yuhang Co.	Note 1	75,223,000	51	—	Construction and management of the Yuhang Section of the Shanghai-Hangzhou Expressway
Jiaxing Co	Note 2	1,859,200,000	99.999454	—	Construction and management of the Jiaxing Section of the Shanghai-Hangzhou Expressway
Shangsan Co	Note 3	2,400,000,000	73.625	—	Construction and management of the Shangsan Expressway
Development Co	Note 4	80,000,000	51	—	Operation of service areas as well as roadside advertising along the the expressways operated by the Group
Advertising Co.	Note 5	1,000,000	—	*35.7	Provision of advertising services
Zhejiang Expressway Vehicle Towing and Rescue Service Co., Ltd. ("Service Co")	Note 6	8,000,000	—	*43.35	Provision of vehicle towing, repair and emergency rescue services
Hangzhou Roadtone Advertising Co., Ltd. ("Roadtone Co")	Note 7	3,000,000	—	*26.01	Provision of advertising services
Zheshang Securities	Note 8	520,000,000	—	**51.88	Operation of securities business

Notes to the Consolidated Financial Statements

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46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

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

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

Note 1: Yuhang Co was established on June 7, 1994 in the PRC as a joint stock limited company and was subsequently restructured into a limited liability company under its current name on November 28, 1996.

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

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

Note 4: Development Co was established on May 28, 2003 in the PRC as a limited liability company.

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

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

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

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

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