



*(A joint stock limited company incorporated in the People's Republic of China with limited liability)*

**(Stock Code: 0576)**

## **2006 ANNUAL RESULTS ANNOUNCEMENT**

- Revenue increased by 37.8% to Rmb4,763.8 million
- Profit attributable to equity holders of the Company increased by 15.5% to Rmb1,652.9 million
- Earnings per share was Rmb38.06 cents
- Final dividend of Rmb20.0 cents per share recommended

The directors (the “Directors”) of Zhejiang Expressway Co., Ltd. (the “Company”) are pleased to announce the audited consolidated operating results of the Company and its subsidiaries (the “Group”) for the year ended December 31, 2006 (the “Period”), prepared in conformity with accounting principles generally accepted in Hong Kong, with the basis of preparation as stated in note 1 to the consolidated financial statements set out below.

### **RESULTS AND DIVIDENDS**

During the Period, revenue for the Group was Rmb4,763.8 million, representing an increase of 37.8% over 2005. Profit attributable to equity holders of the Company was Rmb1,652.9 million, representing an increase of 15.5% over 2005. Earnings per share for the Period was Rmb38.06 cents (2005: Rmb32.95 cents).

The Directors have recommended to pay a final dividend of Rmb20.0 cents per share (2005: Rmb15.0 cents), subject to shareholders’ approval at the 2006 annual general meeting of the Company to be held on June 11, 2007. Together with an interim dividend of Rmb7.0 cents per share paid on November 30, 2006, total dividend for the Period amounted to Rmb27.0 cents per share (2005: Rmb22.0 cents).

The audit committee of the Company has reviewed the annual results of the Group for the Period. Set out below are the audited consolidated income statement and consolidated balance sheet for the Period, together with comparative figures for 2005:

## CONSOLIDATED INCOME STATEMENT

		<b>Year ended December 31,</b>	
		<b>2006</b>	<b>2005</b>
	<i>Notes</i>	<i>Rmb'000</i>	<i>Rmb'000</i>
<b>Revenue</b>	3	<b>4,763,780</b>	<b>3,456,385</b>
Operating costs		<u>(2,076,670)</u>	<u>(1,195,428)</u>
Gross profit		2,687,110	2,260,957
Other income	3	203,952	185,947
Administrative expenses		(71,022)	(62,766)
Other operating expenses		(32,901)	(41,635)
Finance costs		(71,991)	(101,343)
Share of profit of associates		4,435	7,217
Share of profit of a jointly-controlled entity		<u>23,344</u>	<u>16,285</u>
<b>Profit before tax</b>		<b>2,742,927</b>	<b>2,264,662</b>
Income tax expense	4	<u>(884,036)</u>	<u>(692,366)</u>
<b>Profit for the Period</b>		<b><u>1,858,891</u></b>	<b><u>1,572,296</u></b>
Attributable to:			
Equity holders of the Company		1,652,871	1,431,192
Minority interest		<u>206,020</u>	<u>141,104</u>
		<b><u>1,858,891</u></b>	<b><u>1,572,296</u></b>
<b>Dividends</b>			
Interim, paid-Rmb7 cents (2005: Rmb7 cents) per share		304,018	304,018
Final, proposed-Rmb20 cents (2005: Rmb15 cents) per share		<u>868,623</u>	<u>651,467</u>
		<b><u>1,172,641</u></b>	<b><u>955,485</u></b>
<b>Earnings per share</b>	5	<b><u>Rmb38.06 cents</u></b>	<b><u>Rmb32.95 cents</u></b>

## CONSOLIDATED BALANCE SHEET

		As at December 31, 2006	As at December 31, 2005
	<i>Notes</i>	<u>Rmb'000</u>	<u>Rmb'000</u>
<b>Non-current assets</b>			
Property, plant and equipment		13,775,621	13,422,605
Prepaid lease payment		390,658	387,448
Goodwill		91,428	85,472
Other intangible assets		144,727	—
Interest in associates		224,857	226,871
Interest in a jointly-controlled entity		87,982	79,907
Available for sale investments		1,000	1,000
Expressway operating rights		179,845	188,545
		<u>14,896,118</u>	<u>14,391,848</u>
<b>Current assets</b>			
Inventories		12,255	6,446
Loan to an associate		—	116,000
Trade receivables	6	54,451	21,744
Other receivables		180,514	316,238
Prepaid lease payment		18,626	18,138
Held-for-trading investments		229,880	612,097
Bank balances held on behalf of customers		2,507,763	—
Bank balances and cash		1,670,385	829,145
		4,673,874	1,919,808
Assets classified as held for sale		427	—
		<u>4,674,301</u>	<u>1,919,808</u>
<b>Current liabilities</b>			
Trade payables	7	369,323	402,221
Trade payable to customers arising from securities dealing business		2,501,593	—
Tax liabilities		537,265	334,048
Other taxes payable		20,293	31,779
Other payables and accruals		409,740	327,471
Dividend payable		41,595	33,379
Interest-bearing bank and other borrowings		397,141	886,539
Provision		34,800	—
		4,311,750	2,015,437
Liabilities associated with assets classified as held for sale		995	—
		<u>4,312,745</u>	<u>2,015,437</u>
<b>Net current assets (liabilities)</b>		<u>361,556</u>	<u>(95,629)</u>
<b>Total assets less current liabilities</b>		<u>15,257,674</u>	<u>14,296,219</u>

	<b>As at December 31, 2006</b>	<b>As at December 31, 2005</b>
<i>Notes</i>	<u>Rmb'000</u>	<u>Rmb'000</u>
<b>Non-current liabilities</b>		
Interest-bearing bank and other borrowings	448,266	548,198
Long-term bonds	1,000,000	1,000,000
Deferred tax liabilities	<u>456,956</u>	<u>384,153</u>
	<u>1,905,222</u>	<u>1,932,351</u>
	<u>13,352,452</u>	<u>12,363,868</u>
<b>Capital and reserves</b>		
Share capital	4,343,115	4,343,115
Reserves	<u>7,550,189</u>	<u>6,852,803</u>
Equity attributable to equity holders of the Company	<u>11,893,304</u>	<u>11,195,918</u>
<b>Minority interests</b>	<u>1,459,148</u>	<u>1,167,950</u>
	<u>13,352,452</u>	<u>12,363,868</u>

*Notes:*

#### 1 **Basis of Preparation**

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

#### 2 **Principle 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.

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

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

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations apart from HKFRS8 and HK(IFRIC) - Int 12 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 HKFRS8 and HK(IFRIC) - Int 12 on the result and the financial position of the Group:

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>3</sup>
HK(IFRIC) -Int 8	Scope of HKFRS 2 <sup>4</sup>
HK(IFRIC) -Int 9	Reassessment of Embedded Derivatives <sup>5</sup>
HK(IFRIC) -Int 10	Interim Financial Reporting and Impairment <sup>6</sup>
HK(IFRIC) — Int11	HKFRS2 — Group and Treasury Share Transactions <sup>7</sup>
HK(IFRIC) -Int 12	Service Concession Arrangements <sup>8</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2007

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2009

<sup>3</sup> Effective for annual periods beginning on or after March 1, 2006

<sup>4</sup> Effective for annual periods beginning on or after May 1, 2006

<sup>5</sup> Effective for annual periods beginning on or after June 1, 2006

<sup>6</sup> Effective for annual periods beginning on or after November 1, 2006

<sup>7</sup> Effective for annual periods beginning on or after March 1, 2007

<sup>8</sup> Effective for annual periods beginning on or after January 1, 2008

### 3 Revenue and other income

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

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

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

- City development tax, levied at 1% to 7% of business tax;
- Education surcharge, levied at 2% to 5% of business tax; and
- Culture and education fees, levied at 3% on advertising income.

#### 4 Income Tax Expenses

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.

	<b>Year ended December 31,</b>	
	<b>2006</b>	<b>2005</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>
Group		
Tax charged	876,874	654,471
Deferred	<u>7,162</u>	<u>37,895</u>
Tax charge for the Period	<u>884,036</u>	<u>692,366</u>

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

	<b>Year ended December 31,</b>	
	<b>2006</b>	<b>2005</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>
Group		
Profit before tax	<u>2,742,927</u>	<u>2,264,662</u>
Tax at the statutory tax rate of 33%	905,166	747,338
Tax effect of share of profits of associates	(1,464)	(2,382)
Tax effect of share of profit of a jointly-controlled entity	(7,703)	(5,374)
Tax exemption of a subsidiary	—	(51,408)
Tax effect of net (income)/expense that is not (taxable)/deductible in determining taxable profit	<u>(11,963)</u>	<u>4,192</u>
Tax charge at the Group's effective tax rate	<u>884,036</u>	<u>692,366</u>

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.

## 5 Earnings per Share

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

No diluted earnings per share has been presented as there were no potential dilutive ordinary shares in issue for the years ended December 31, 2006 and 2005.

## 6 Trade Receivables

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

	<b>As at December 31, 2006</b>	<b>As at December 31, 2005</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>
Within 1 year	52,773	20,470
1 to 2 years	471	1,274
Over 2 years	<u>1,207</u>	<u>—</u>
Total	<u>54,451</u>	<u>21,744</u>

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

## 7 Trade Payables

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

	<b>As at December 31, 2006</b>	<b>As at December 31, 2005</b>
	<i>Rmb'000</i>	<i>Rmb'000</i>
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	<u>114</u>	<u>3,552</u>
Total	<u>369,323</u>	<u>402,221</u>

## 8 Transfer to reserves

In accordance with the Company Law of the PRC and the companies' articles of association, the Company, its subsidiaries, its associates and its jointly-controlled entity (collectively, the "Entities") are required to allocate 10% of their profit after tax, as determined in accordance with the PRC accounting standards and regulations applicable to the Entities, to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the Entities. Subject to certain restrictions set out in the Company Law of the PRC and the respective articles of association of the Entities, part of the SSR may be converted to increase the Entities' share capital.

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

## BUSINESS REVIEW

As the first year in the eleventh Five-Year National Economic Development Plan, year 2006 saw the economy in Zhejiang Province expand by 13.6% in GDP compared to the national GDP growth rate of 10.7%. More important than the rate of economic growth was improved quality of economic growth achieved in the province: better coordination among various industries and a more balanced growth throughout different regions of the province.

The strong economic growth in Zhejiang Province during the Period continued to generate increased demand for road transport. Such demand was in turn met by an expanding road network, providing an impetus for sustained traffic volume growth on roadways in general and expressways in particular.

While toll income from expressway operations remained the mainstay of the Group during the Period, the proportion of contribution to total income from the Group's other business operations, such as gas stations, restaurants and shops in service areas, continued to grow. Together with revenue contribution in the second half of 2006 from the newly acquired securities business, total revenue of the Group during the Period amounted to Rmb4,763.8 million, representing an increase of 37.8% over 2005.

A detailed breakdown of the Group's income for the Period is set out below:

	<b>2006</b>	<b>2005</b>	
	<i>Rmb'000</i>	<i>Rmb'000</i>	<i>% Change</i>
Toll income			
Shanghai-Hangzhou-Ningbo Expressway	2,810,489	2,519,676	11.5%
Shangsan Expressway	833,823	830,994	0.3%
Other income			
Service areas businesses income	968,476	230,183	320.7%
Advertising businesses income	53,228	48,045	10.8%
Road maintenance income	5,633	2,568	119.4%
Security operation income			
Commission and brokerage income	173,372	—	—
Bank interest income	20,491	—	—
Subtotal	4,865,512	3,631,466	34.0%
Less: Revenue taxes	(101,732)	(175,081)	-41.9%
Revenue	<u>4,763,780</u>	<u>3,456,385</u>	<u>37.8%</u>

## **Expressway Operations**

Total toll income from the 248km Shanghai-Hangzhou-Ningbo Expressway and the 142km Shangsán Expressway amounted to Rmb3,644.3 million during the Period, representing an increase of 8.8% over 2005 and contributing to 74.9% of the Group's total income. Traffic volume growth during the Period, however, varied substantially for different sections of the expressways.

After the completion of the second phase of the widening project along the Shanghai-Hangzhou-Ningbo Expressway by the end of 2005, traffic volume on the Shanghai-Hangzhou Expressway experienced a strong rebound with a 17.4% increase over 2005, averaging 42,297 full-trip equivalents per day.

Traffic volume on the Hangzhou-Ningbo Expressway grew by a substantially lower rate of 2.7% during the Period, averaging 35,806 full-trip equivalents per day, mainly due to the ongoing third phase widening works carried out along the section, and to a lesser degree, due to traffic diversions to other expressways that had been newly opened.

The Shangsán Expressway saw its traffic volume dip by 0.2% during the Period, averaging 19,783 full-trip equivalents per day, mainly due to a parallel national road reopened to traffic after an extended period of partial closure for renovation, and also to a lesser degree, due to traffic diversions to other expressways that had been newly opened.

As part of the Company's continued effort to increase operating efficiency and reduce cash transactions in its expressway operations, starting from November 1, 2006, toll stations along the Shanghai-Hangzhou-Ningbo Expressway and the Shangsán Expressway began to accept widely distributed China UnionPay bankcards (銀聯卡), the first such adoption of the bankcards on expressways in China.

## **Expressway-related Business Operations**

The Company operates gas stations, shops and restaurants in service areas, as well as roadside advertising and vehicle service businesses along the expressways through its subsidiaries. In the past few years, demand for these services has been growing at a faster rate than the rate of traffic volume growth.

During the Period, benefiting from a change in operating mode of gas stations from consigning to self-operating, as well as increased capacities after the completion of the current phase of service area expansion, income from the above business operations reached Rmb1,043.4 million, representing an increase of 249.5% over 2005.

## **Securities Business**

The Company took over the management of Kinghing Securities Co., Ltd. (金信證券有限責任公司) on July 1, 2006 after participating in a successful reorganization of the securities company during the first half of 2006, and subsequently renamed the securities company as "Zheshang Securities Co., Ltd." (浙商證券有限責任公司) ("Zheshang Securities").

After the reorganization, the Company has strengthened the risk control for Zheshang Securities and enhanced its management quality. Meanwhile, benefitting from an upturn of China's securities market, Zheshang Securities has achieved better-than-expected operating results. Income of the securities company during the second half of the year was Rmb193.9million, while profit realized after taxation was Rmb121.9million.

Details of the reorganization had been provided in a circular to the shareholders of the Company dated May 16, 2006.

### **Long-term Investments**

During the Period, Hangzhou Shida Highway Co., Ltd., a 50%-owned jointly-controlled entity of the Company that owns and operates the 9.45km Shida Road, saw its traffic volume increased by 17.3% over 2005 and toll income increased by 16.4% over 2005. Profit for the Period realized by the jointly-controlled entity was Rmb46.7 million, representing an increase of 43.3% over 2005. The much higher rate of increase in profit for the Period was primarily due to lower-than-usual maintenance expenditures.

Demand for gasoline products in Zhejiang Province continued to grow substantially during the Period, leading to a 41.3% increase in revenue over 2005 for Zhejiang Expressway Petroleum Development Co., Ltd., a 50%-owned associate of the Company. Profit for the Period attributable to equity holders of the parent realized by the associated company during the Period was Rmb19.3 million, representing an increase of 38.5% over 2005.

JoinHands Technology Co., Ltd., a 27.582%-owned associate of the Company, failed to pull out of a slump in its main printing business despite improved sales for its computer hardware and software products. Revenue for the associated company decreased by 10.1% over 2005 during the Period, resulting in a loss attributable to equity holders of the parent of Rmb7.5 million.

### **Expressway Widening Project**

The third and last phase of the project to widen the Shanghai-Hangzhou-Ningbo Expressway from four lanes to eight lanes (the "Widening Project") continued along the Hangzhou-Ningbo section during the Period, with most of the foundation and structure works finished.

The Company has taken every measure available to minimize the impact of related construction works upon normal traffic flow along the Hangzhou-Ningbo section. It is expected that the section will be kept open for traffic, though with reduced capacity, throughout the rest of construction works until its completion by the end of 2007.

Upon completion of the Widening Project, the Shanghai-Hangzhou-Ningbo Expressway will be the first eight-lane expressway in Zhejiang Province, with substantially increased carrying capacity and improved quality of service in terms of greater reliability and safer traveling conditions.

## **Project Investment**

On March 10, 2007, the Company entered into agreements to acquire an aggregate of 23.45% equity interest in Zhejiang Jinhua Yongjin Expressway Co., Ltd. (浙江金華甬金高速公路有限公司) (“Jinhua Co.”) from the Jinhua Municipal Road Management Bureau (金華市公路管理處) and Dongyang Municipal Transport Investment Co., Ltd. (東陽市交通投資有限公司) for a total consideration of Rmb281.4 million in cash.

Jinhua Co. is the project company holding 100% equity interests in the Jinhua Section (金華段) of the Ningbo-Jinhua Expressway (甬金高速公路) for a concession period of 25 years. The Jinhua Section is a four-lane expressway totaling 69.7km that was completed and opened to traffic on December 28, 2005.

The investment in Jinhua Co. is in line with the Company’s development strategy of further expanding its expressway network within Zhejiang Province to capture a greater share of growing expressway traffic and to derive additional synergy from an expanded network.

The parent company of the Company, Zhejiang Communications Investment Group Co., Ltd., is another substantial shareholder of Jinhua Co. with its 35% equity interest. Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the above acquisition is not considered as a connected transaction or a discloseable transaction.

## **FINANCIAL ANALYSIS**

The Group adopts a prudent financial policy with an aim to providing shareholders with sound returns over the long-term.

During the Period, the Group’s profit attributable to equity holders of the Company was approximately Rmb1,652.9 million, representing an increase of 15.5% over 2005, while earnings per share for the Group was Rmb38.06 cents.

### **Profitability**

The compound annual growth rates of earnings per share and return on equity in the last five years were 16.7% and 10.9%, respectively.

During the Period, the annual dividend payout ratio was 71.0%, reflecting a stable dividend payout policy that the management maintained in past years.

### **Liquidity and Financial Resources**

The financial position of the Group remained sound and healthy during the year under review. As at December 31, 2006, current assets of the Group amounted to Rmb4,674.3 million in aggregate (2005: Rmb 1,919.8 million), of which cash and cash equivalents accounted for 85.8% (2005: 37.7%), while time deposits accounted for 2.8% (2005: 5.5%) and short-term investments accounted for 4.9% (2005: 31.9%).

Amongst Rmb4,011.8 million that the Group held in cash and cash equivalent as at December 31, 2006 (2005: Rmb723.5million), 62.5% was held on behalf of customers of Zheshang Securities.

As at December 31, 2006, the Group had Rmb229.9 million in short-term investments that were fully attributable to Zheshang Securities, and was invested in the stock market.

During the Period, net cash inflow generated from the Group's operating activities amounted to Rmb2,668.6 million, representing an increase of 34.6% over 2005.

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

### **Borrowings and Solvency**

As at December 31, 2006, the total liabilities of the Group were Rmb6,218.0 million, of which 29.7% were borrowings and 40.2% were client deposits arising from securities dealing.

The borrowings comprised mainly outstanding balances of the World Bank loans of Rmb657.8 million in Renminbi equivalent, loans from several domestic commercial banks totaling Rmb125.0 million and corporate bonds amounting to Rmb1 billion that was issued by the Company in 2003 for a term of 10 years. Among Rmb1,845.4 million of the Group's total borrowings, 78.5% were not repayable within one year (2005: Rmb2,434.7 million and 63.6%, respectively).

As at December 31, 2006, the interest rates of the Group's semi-annual and annual domestic commercial bank borrowings, totaling Rmb125.0million, were fixed between 5.02% and 5.58% per annum; the interest rate for Rmb62.6 million government loans remained fixed at 3.00% per annum; the annual coupon rate for the Rmb1 billion corporate bonds was fixed at 4.29%, with interest payable annually; the annual interest rate for client deposits arising from securities dealing was fixed at 0.72%; the floating rate of the Group's Rmb657.8 million World Bank loans, denominated in US dollar, varied from 4.51% to 5.16%.

Total interest expense for the Period amounted to Rmb102.8 million, while profit before interest and tax amounted to Rmb2,829.4 million. The interest cover ratio (profit before interest and tax over interest expenses) stood at 27.5 (2005: 22.1).

The asset-liability ratio (total liabilities over total assets) was 31.8% as at December 31, 2006 (2005: 24.2%).

### **Capital Structure**

The total equity of the Group increased by 8.0% from Rmb12,363.9 million as at December 31, 2005 to Rmb13,352.5 million as at December 31, 2006. The fixed-rate liabilities of the Group amounted to Rmb3,689.2 million, while the floating-rate liabilities of the Group amounted to Rmb657.8 million and the interest-free liabilities of the Group amounted to Rmb1,871.0 million, representing 18.9%, 3.4% and 9.6% of the Group's capital, respectively.

As at December 31, 2006, the Group's gearing ratio, measured on the basis of the sum of fixed-rate liabilities, floating-rate liabilities and interest-free liabilities as a percentage of total equity, was 46.6% (2005: 31.9%).

### **Capital Expenditure Commitments and Utilization**

Total capital expenditures of the Group and of the Company for the Period amounted to Rmb1,169.6 million and Rmb555.3 million, respectively, with Rmb468.9 million incurred by the investment in Zheshang Securities and Rmb485.9 million incurred by the Widening Project.

The capital expenditures committed by the Group and by the Company as at December 31, 2006 were Rmb3,873.3 million and Rmb2,941.1 million, respectively. Amongst the Rmb3,873.3 million committed by the Group, 47.1% will be used on the Widening Project, 28.7% will be used on the construction of Jiashao Expressway and 7.3% will be used on the equity acquisition of Jinhua Co.

The Group will finance its abovementioned capital expenditure commitments with internally generated cash flow, with a preference for debt financing to meet any shortfalls thereof.

### **Contingent Liabilities and Pledge of Assets**

Fourteen customers of Zheshang Securities previously entered into state bond investment agency agreements with Kinghing Trust Investment Co., Ltd ("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.

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 a whole is not expected to be material though should this situation arise.

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.

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 in full by the state.

Other than the aforementioned, the Group did not have any other contingent liabilities nor any pledge of assets as at December 31, 2006.

### **Foreign Exchange Exposure**

Except for the repayment of a World Bank loan of Rmb657.8 million in US dollars, as well as dividend payments to overseas shareholders in Hong Kong dollars, the Group's principal operations are transacted and booked in Renminbi. Therefore, the Group's exposure to foreign exchange fluctuations is limited and the Group has not entered into any financial instrument for hedging purposes.

Although the Directors do not foresee any material foreign exchange risks for the Group, there is no assurance that any further changes in the foreign exchange environment will not adversely affect the operating results of the Group in the future.

### **OUTLOOK FOR 2007**

The Chinese economy is expected to continue with its rapid growth in 2007 under the new focus on scientific development and on quality over speed. Being the most economically vibrant province, Zhejiang Province's GDP will continue to grow in double digits in 2007, higher than the national average GDP growth rate. At the same time, cars are widely used by families; the era of rapid growth in vehicle consumption has arrived. There will be a substantial increase in the total number of vehicles in China.

Owing to the positive impact of fundamentals above, we estimate optimistically that growth rates for both traffic volume and toll income on the Shanghai-Hangzhou-Ningbo Expressway will be higher in 2007 than in 2006. After the gradual dissipation of vehicle diversion impact on the Shangsang Expressway, traffic volume on the Shangsang Expressway will also enjoy a certain level of rebound growth.

To meet the growing traffic flow, and following the Company's introduction of Unionpay bankcards for the first time in China, we will start to introduce non-stop toll collection booths and automatic IC card issuance at entrance booths in 2007, with an aim to further improve the carrying capacity and rapid-through capabilities of the expressways operated by the Company.

In 2007, there will be a new pair of service areas completed and put into operation. Having grown rapidly for three consecutive years, the Company's non-core business operations will continue to enjoy excellent performance in 2007.

Following the successful reorganization of Zheshang Securities, and the unusually robust performance of the Chinese stock market, Zheshang Securities will be bringing sizable profit contributions to the Company. However, the Company intends to maintain investment in and operation of expressways as its core business.

#### **PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES**

Neither the Company nor any of its subsidiaries had purchased, sold, redeemed or cancelled any of the Company's shares during the Period.

#### **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company was in compliance with the code provisions in the Code on Corporate Governance Practices set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the Period.

By Order of the Board  
**Geng Xiaoping**  
*Chairman*

Hangzhou, PRC, April 24, 2007

*As at the date of this announcement, the executive directors of the Company are: Messrs. Geng Xiaoping, Fang Yunti, Zhang Jingzhong and Jiang Wenyao; the non-executive directors are: Messrs. Zhang Luyun and Zhang Yang; and the independent non-executive directors are: Messrs. Tung Chee Chen, Zhang Junsheng and Zhang Liping.*

Please also refer to the published version of this announcement in South China Morning Post.