

Report of the Directors

The Directors of the Company present their report and the audited financial statements of the Company and the Group for the year ended December 31, 2004.

PRINCIPAL ACTIVITIES

The principal activities of the Group comprise the design, construction, operation, maintenance and management of high grade roads, as well as the development and provision of certain ancillary services, such as technical consultation, advertising, automobile servicing and fuel facilities. There were no changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

During the year, the entire turnover and contribution to profit from operating activities of the Group were derived from the Zhejiang Province in the People's Republic of China (the "PRC"). Accordingly, a further analysis of the turnover and contribution to profit from operating activities by geographical area is not presented. However, an analysis of the Group's turnover and contribution to profit from operating activities by principal activity for the year ended December 31, 2004 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended December 31, 2004 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 48 to 89.

An interim dividend of Rmb0.04 per share (approximately HK\$0.038) was paid on November 9, 2004. The Directors recommend the payment of a final dividend of Rmb0.15 per share (approximately HK\$0.141) in respect of the year, to shareholders on the register of members on April 28, 2005. This recommendation has been incorporated in the financial statements as an allocation of retained earnings within the capital and reserves section in the balance sheet. Further details of the dividends are set out in note 12 to the financial statements.



FIVE YEAR SUMMARY FINANCIAL INFORMATION

The following is a summary of the published consolidated results, and of the assets, liabilities and minority interests of the Group prepared on the basis set out in the notes below.

	Year ended December 31,				
Results	2004 Rmb'000	2003 Rmb'000	2002 Rmb'000	2001 Rmb'000	2000 Rmb'000
Turnover	3,131,993	2,471,805	2,168,078	1,722,517	1,188,604
Operating costs	(845,875)	(731,451)	(561,918)	(392,535)	(248,429)
Gross profit	2,286,118	1,740,354	1,606,160	1,329,982	940,175
Other revenue	41,646	127,285	66,457	216,690	242,888
Administrative expenses	(109,986)	(114,629)	(95,209)	(88,487)	(64,978)
Other operating expenses	(243,823)	(54,243)	(33,109)	(18,236)	(75,317)
Profit from operating activities	1,973,955	1,698,767	1,544,299	1,439,949	1,042,768
Finance costs	(103,457)	(132,801)	(163,224)	(215,346)	(197,083)
Share of profits of associates	15,016	17,394	11,719	12,396	40,584
Share of profit/(loss) of a jointly-controlled entity	25,467	9,829	1,677	(1,459)	(6,517)
Profit before tax	1,910,981	1,593,189	1,394,471	1,235,540	879,752
Tax	(554,524)	(497,166)	(400,952)	(363,970)	(186,391)
Profit before minority interests	1,356,457	1,096,023	993,519	871,570	693,361
Minority interests	(130,758)	(87,231)	(103,067)	(110,957)	(57,360)
Net profit from ordinary activities attributable to shareholders	1,225,699	1,008,792	890,452	760,613	636,001
Earnings per share - basic	28.22 cents	23.23 cent	20.50 cent	17.51 cents	14.64 cents

As at December 31,					
	2004	2003	2002	2001	2000
Assets, liabilities and minority interests	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Total assets	15,461,439	15,068,687	14,505,834	14,477,538	14,586,420
Total liabilities	(3,648,933)	(3,910,291)	(3,826,254)	(3,685,828)	(4,128,921)
Minority interests	(1,092,295)	(1,012,417)	(977,789)	(1,502,629)	(1,495,364)
Net assets	10,720,211	10,145,979	9,701,791	9,289,081	8,962,135

Notes:

1. The consolidated results of the Group for the four years ended December 31, 2003 have been extracted from the Company's 2003 annual report dated March 15, 2004, while those of the year ended December 31, 2004 were prepared based on the consolidated income statement as set out on page 48 of the financial statements.
2. The 2004 earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year ended December 31, 2004 of Rmb1,225,699,000 (2003: Rmb1,008,792,000) and the 4,343,114,500 ordinary shares (2003: 4,343,114,500 ordinary shares) in issue during the year.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the five largest customers and suppliers of the Group accounted for less than 30% of the total turnover and purchases, respectively.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

CONNECTED TRANSACTIONS

The Company carried out connected transactions during the year with its one of its subsidiaries and one of its fellow subsidiaries, further details of which are set out in note 38 to the financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 14 to the financial statements.

CAPITAL COMMITMENTS

Details of the capital commitments of the Company and the Group as at December 31, 2004 are set out in note 34 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2004, before the proposed final dividend, the Company's reserves available for distribution by way of cash or in kind, as determined based on the lower of the amount determined under PRC accounting standards and the amount determined under generally accepted accounting principles in Hong Kong, amounted to Rmb745,953,000. In addition, in accordance with the Company Law of the PRC, the amount of approximately Rmb3,638,000,000 standing to the credit of the Company's share premium account as prepared in accordance with the PRC accounting standards was available for distribution by way of capitalisation issues.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at December 31, 2004, the following shareholders held 5% or more of the issued share capital of the Company according to the register of interests in shares required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance (the "SFO"):

Name	Number of shares	Percentage of share capital (domestic shares)
Zhejiang Communications		
Investment Group Co., Ltd.	2,432,500,000	83.61%
Huajian Transportation Economic		
Development Center	476,760,000	16.39%
Name	Number of shares	Percentage of share capital (H shares)
Aberdeen Asset Management Asia	176,523,000	12.31%
Sumitomo Life Insurance Company	100,482,000	7.01%
Capital Group	88,432,000	6.17%
UBS AG	84,631,240	5.90%

Save as disclosed above, as at December 31, 2004, no person had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

TRUST DEPOSITS

As at December 31, 2004, other than the deposits of Rmb90,565,000 placed in non-bank financial institutions in the PRC, of which Rmb65,166,000 was subsequently withdrawn in January 2005, the Group did not have any trust deposits, nor any time deposits with any non-bank financial institution in the PRC. Nearly all of the Group's deposits have been placed with commercial banks in the PRC and the Group has not encountered any difficulty in the withdrawal of funds.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are:

Executive Directors

Mr. Geng Xiaoping
Mr. Fang Yunti
Mr. Zhang Jingzhong
Mr. Xuan Daoguang

Non-executive Directors

Ms. Zhang Yang
Ms. Zhang Luyun

Independent non-executive Directors

Mr. Tung Chee Chen
Mr. Zhang Junsheng
Mr. Zhang Liping

The Company has received annual confirmations of independence from Mr. Tung Chee Chen, Mr. Zhang Junsheng and Mr. Zhang Liping, and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors of the Company and the senior management of the Group are set out in the Company's annual report.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors and supervisors ("Supervisors") of the Company has entered into a service agreement with the Company, with effect from March 1, 2003, for a term of three years.

Save as disclosed above, none of the Directors and Supervisors has entered into any service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

As at December 31, 2004 or during the year, none of the directors or supervisors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at December 31, 2004, the interests of the Directors, Supervisors and chief executives in the share capital of the Company's associated corporations (within the

meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

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Name	Position	Interest	Contribution of registered capital (Rmb)	Nature of interest	Percentage of the associated corporation's registered capital
Mr. Geng Xiaoping	Chairman	Equity interest	2,400,000	Directly beneficially owned	3.00
Mr. Fang Yunti	Director/General manager	Same as above	1,920,000	Same as above	2.40
Mr. Zhang Jingzhong	Director	Same as above	550,000	Same as above	0.69
Mr. Xuan Daoguang	Director	Same as above	1,100,000	Same as above	1.38
Mr. Fang Zhexing	Supervisor	Same as above	700,000	Same as above	0.88

Save as disclosed above, as at December 31, 2004, none of the Directors, Supervisors and chief executives had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), or as be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE'S RIGHTS TO SUBSCRIBE FOR SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director, Supervisor and chief executive or their respective spouse or minor children, or were any such rights exercised by them; or was the

Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable any such persons to acquire such rights in any other body corporate.

PENSION SCHEME

As required by the State regulations of the PRC, the Group participates in a defined contribution pension scheme organised by local social security authorities. Under the scheme, all employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount within the geographical area of their last employment at their retirement date. The Group is required to make contributions to local social security authorities at rates ranging from 20% to 22.5% of the average basic salaries of the employees of the previous year within the geographical area where the employees are under employment with the Group. The Group has

no obligation for the payment of pension benefits beyond such annual contributions to the registered insurance companies. When an employee leaves the scheme, the Group is not entitled to a refund of any contributions that it has previously made. Hence, no forfeited contribution was used by the Group to reduce the level of its contributions during the year. During the year, contributions to registered insurance companies made by the Group plans the defined contribution retirement scheme amounted to Rmb11,228,000 (2003: Rmb13,880,000).

MEDICAL INSURANCE SCHEME

Medical expenses for employees of the Group were accounted for as part of the benefits provided by the Group in accordance with relevant accounting rules and internal policies. Following the promulgation of employees' basic medical schemes by local governments in the Zhejiang Province, subject to the local regulations of various areas of the province, starting from the second half of 2002, the Group is required to make contributions to local social security authorities, which are in proportion to the salaries and wages of the employees at rates ranging from 4% to 11%. Up to December 31, 2004, certain entities of the Group had enrolled in these compulsory schemes. The Group plans to have all of its subsidiaries participating in this medical insurance scheme in the near future. Judging from the arrangements of the schemes, the Directors do not anticipate any significant impact of its participation in the scheme on the Group's financial standing, specifically its consolidated income statement and consolidated balance sheet.

ACCOMMODATION BENEFITS FOR EMPLOYEES

According to relevant rules and regulations in the PRC, the Group and its employees are all required to make contributions to an accommodation fund to local social security authorities, which are in proportion to the salaries

and wages of the employees at an average rate of 10%. There are no further obligations beyond the contributions to the accommodation fund organised by the local social security authorities.

SHARE CAPITAL

There were no movements in the Company's issued share capital during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights in the Company's articles of association or the laws of the PRC which would require the Company to offer new shares on a pro rata basis to existing shareholders.

UNITED KINGDOM TAXATION

The following paragraphs are intended as a general guide only and are based on current legislation and HM Revenue & Customs practice. If you are in any doubt as to your tax position, you should consult an appropriate professional adviser without delay.

Individual holders of H Shares who are resident and domiciled in the United Kingdom (the "UK") will, in general, be liable to UK income tax on dividends received from the Company. Where such an individual receives dividends from the Company without withholding of taxes in the PRC, the amount included as income for the purpose of computing his or her UK tax liability is the gross amount of the dividend and this is taxed at the appropriate marginal rate (currently 10% up to the basic rate unit and 32.5% above the basic rate unit). Where tax is withheld from the dividend, the individual will be entitled to claim credit against UK income tax for any tax withheld from the dividend up to the amount of the UK income tax liability. The Company would assume responsibility for withholding tax at source within the PRC if such a withholding is required. The current UK-Chinese Double

Taxation Agreement provides that the maximum withholding tax on dividends from Chinese resident companies paid to UK residents is 10% of the gross dividend.

Individual holders of H Shares who are resident but not domiciled in the UK will only be liable to income tax on a dividend from the Company to the extent that the dividend is remitted to the UK.

A UK tax resident corporate shareholder will, in general, be liable to UK corporation tax on dividends received from the Company, with double tax relief available for withholding tax suffered. In certain cases (not to be discussed here), a holder of H Shares which is a UK tax resident company may be entitled to relief for “underlying” tax paid by the Company or its subsidiaries.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has throughout the year ended December 31, 2004 complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors and the two non-executive directors of the Company.

AUDITORS

Ernst & Young will retire and a resolution for the appointment of international auditors of the Company will be proposed at a general meeting of the Company to be announced in due course.

ON BEHALF OF THE BOARD

Geng Xiaoping

Chairman

Hangzhou, Zhejiang Province, the PRC

March 29, 2005