

Report on Corporate Governance

During the Period, the Company has complied with all the applicable provisions in the “Code on Corporate Governance Practices” set out in Appendix 14 of the Listing Rules (hereinafter referred to as the “Code”).

CORPORATE GOVERNANCE PRACTICES

A. DIRECTORS

The Board of the Company represents the interests of shareholders as a whole, leading the Company to the continued success in its commercial operations. The Board has adopted the Company’s mission, which is “Cultivation of expertise, to create and enjoy values” as its own mission, and the Company’s best long-term financial return as its measurement criteria. The Board has the responsibility to ensure that the management fully discharge their obligations under the various changes to the external factors, and conduct regular and effective supervision on the implementation of policies, decisions and strategies of the management. All the Directors are expected to perform prudently, faithfully and diligently for the overall interests of the Company both in terms of their obligations and responsibilities.

On March 29, 2005, the Board approved the Company’s amended “Guidelines on Corporate Governance” (including its Appendix IV headed “Procedures for Directors to Seek Independent Professional Advice”), which allows Directors to seek independent professional advice based on reasonable requests and under appropriate circumstances, at the expense of the Company. During the Period, during the consideration of matters where a substantial shareholder or a Director has material conflict of interest, the Board has hold a Board meeting in respect of such matters, instead of holding by way of circulation of documents or by its committees, and the Board meeting was attended by

all the Independent Non-executive Directors of the Company. The Company has made appropriate insurance arrangements for any legal action which may be faced by its Directors.

The role of the Chairman of the Board is undertaken by an Executive Director elected by over half of all the Directors, who has led the Board in formulating the Company’s major plans and policies to enable the effective operation of the Company, and at the same time, ensuring the Board to discuss all the key and appropriate matters in a timely and constructive manner. The role of the General Manager of the Company is undertaken by another Executive Director appointed by the Board, whose responsibility is to implement these plans and policies. The terms of reference of the Chairman and the General Manager are clearly stated and set out in a written form. Please refer to the Articles of Association of the Company for details. The Chairman has also ensured timely provision of full information regarding the matters to be discussed by the Board to all the Directors. The Chairman authorizes the Secretary of the Board to be responsible for determining and approving the agenda for each Board meeting, during which process the Secretary of the Board will consider any matter proposed by other Directors to be added to the agenda. The Chairman leads the Company in setting a good corporate governance practice and procedure, and encourages all the Directors to be fully engaged in the business of the Board. He leads by example so that the actions of the Board will comply with the best interests of the Company. The Chairman has adopted appropriate measures to maintain effective communication with shareholders, with an aim to ensure that the opinions of shareholders are communicated to all members of the Board.

Members of the Board have extensive knowledge and experience in the Company’s business in respect of development strategies, financial and legal aspects. On

February 14, 2006, the Company convened an extraordinary general meeting (“EGM”) to elect members of the fourth session of the Board. Other than the election of Mr. Jiang Wenyao, the Company’s Deputy General Manager who is familiar with the Company’s business, to replace the retiring Mr. Xuan Daoguang as an Executive Director, other Directors remain unchanged as compared to the third session of the Board. Among the nine members of the Board, four are Executive Directors; and the remaining five are Non-executive Directors, of whom three are Independent Non-executive Directors, representing one-third of the number of Board members. Although the number of Non-executive Directors has exceeded half of the total members of the Board, they have extensive experience in business, finance and law, and their advice to the Board had material influence on the decision making of the Board. In all the Company’s correspondence (including the Company’s website) bearing the names of Directors, the full list of names of the latest Board members is provided, indicating their roles and duties and identifying the Independent Non-executive Directors.

The Company has formulated formal, deliberate and transparent procedures for the appointment of new Directors. On December 27, 2005, the Company’s Nomination and Remuneration Committee nominated and made recommendations to the Board the candidates for Directors for the fourth session of the Board. After accepting the recommendations of the Nomination and Remuneration Committee, the Board issued the notice and circular regarding the EGM on December 30, 2005. On February 14, 2006, the Company convened the EGM, at which the members of the fourth session of the Board were approved. The Company has laid down the plan for an orderly succession by the new session of the Board. All the Directors of the Company are subject to re-election at general meetings every three years.

Each of the Directors has been able to understand his/her duties as the Company’s Director, the way of operation, business activities and development of the Company through the Secretary of the Board and by attending Board meetings and committee meetings.

Independent Non-executive Directors regularly attended meetings of the Board, the Audit Committee, and the Nomination and Remuneration Committee and actively participated in their activities, and have made positive contributions to the Company with their independent, constructive and informed opinions. When Mr. Jiang Wenyao first accepted his appointment as an Executive Director of the Company, the Secretary of the Board has provided him with specially prepared comprehensive and formal information and professional developments which he ought to know and is required to know for taking up the position, so as to ensure that he is fully aware of his duties under the common law, the Listing Rules, applicable requirements under the PRC laws and other regulatory requirements as well as the Company’s business and governance policies.

During the Period, the Secretary of the Board has provided the Directors with the agenda of the meeting, together with adequate and appropriate related meeting documents three days before any regular Board meeting, to enable the Directors to make fully informed decisions and discharge his/her duties and obligations as a Director. The Company’s senior management have made formal and informal communications with the Directors from time to time during the Board meetings and other occasions. All the Directors have been entitled to inspect the documents and minutes of Board meetings.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Disclosures on the remuneration of the Directors and Supervisors are made available in note 13 to the financial statements on page 75 of this annual report. The Company has a regulated procedure for formulating the relevant policies of the remunerations for the Executive Directors and determining the remunerations of the Directors. The level of remunerations has been sufficient to attract and retain the Directors required for the successful operation of the Company. However, the Company avoided to pay excessive remuneration for such purpose. None of the Directors have participated in voting at the Board meetings when their own remunerations were being determined.

C. ACCOUNTABILITY AND AUDITING

During the Period, the management has provided full explanations and adequate information to the Board to enable the Board to consider the financial and other information submitted for their approval. The Directors are responsible for preparing the accounts for each financial period, so that the accounts can truly and fairly reflect the position, results and cash-flow performance of the Company's business during the period. When preparing the accounts as at December 31, 2005, the Directors have adopted and implemented appropriate accounting policies, adopted the standards under "Hong Kong Financial Reporting Standards", made prudent and reasonable judgments and estimates, and prepared the accounts on an ongoing concern basis. In the appropriate shareholder correspondence, the Board believes that balanced, clear and easily understandable assessments on the Company's situation and prospects have been made.

The Board has made standardized arrangements on how to apply the principles of financial reporting and internal control, and how to maintain appropriate relation with the auditors. During the Period, the initial drafts and final drafts of the minutes of the meetings of the Audit Committee have been circulated to all members of the committee within a reasonable time after the meetings, and having obtained comments from the members on the initial drafts, the final drafts were kept for records. A complete record of the meetings was maintained by the Secretary of the Board. None of the five members of the Audit Committee were formal partners of the Company's existing external auditors. The Audit Committee have laid down their written terms of reference to comply with the Code, which have been posted on the Company's website in the section headed "Corporate Governance". The Audit Committee has been provided with sufficient resources to perform its duties.

D. DELEGATION BY THE BOARD

The Company has a formal pre-determined schedule specifying the matters which specifically require decisions to be made by the Board, in respect of which the management have to report to the Board for approval before making the decisions or entering into commitments on behalf of the Company.

In order to carry out sound corporate governance, the Company has formulated and implemented "Guidelines on corporate governance", "Terms of Reference for the Audit Committee", "Terms of Reference for the Nomination and Remuneration Committee", "Terms of Reference for the Connected Transactions Committee" and "Terms of Reference for the Strategy Committee" in compliance with the Listing Rules and other relevant laws and regulations, thereby providing each of the Audit Committee, the Nomination and Remuneration Committee, the Connected Transactions Committee and the Strategy Committee under the Board their specific written terms of reference, specifying the powers and duties of these committees.

E. COMMUNICATIONS WITH SHAREHOLDERS

During the Period, the Chairman has attended the AGM, and appointed the General Manager to attend the EGM, whereat a separate resolution in respect of each separate matter was passed. Results of the general meetings were published in Hong Kong newspapers on the first business day after the meetings, and were posted on the websites of the Stock Exchange and the Company.

In the notices of general meetings sent to shareholders, the Company has set out procedures for voting by poll, which complied with the requirements under the Listing Rules and the Articles of Association of the Company.

SECURITIES TRANSACTIONS BY DIRECTORS

Since the formulation of the “Rules on Security Dealings” by the Company on March 13, 2002, it has been strictly implemented by all the Company’s Directors. Upon the amendments of the Listing Rules by the Stock Exchange on March 31, 2004, corresponding amendments have been made by the Company on its own “Rules on Security Dealings”, with standards not less exacting than the “Model Code for Securities Transactions by Directors of Listed Issuers” under Appendix 10 of the Listing Rules (hereinafter referred to as “Model Code”).

Upon specific enquiries to all the Directors, the Directors have confirmed their respective compliance with the relevant standards for securities transactions by directors as set out in the Model Code and the “Rules on Security Dealings” of the Company in the Period.

BOARD

During the Period, the third session of the Board of the Company comprised nine members, including four Executive Directors, namely Mr. Geng Xiaoping (Chairman), Mr. Fang Yunti, Mr. Zhang Jingzhong and Mr. Xuan Daoguang; two Non-executive Directors, namely Ms. Zhang Luyun and Ms. Zhang Yang; and three Independent Non-executive Directors, namely Mr. Tung Chee Chen, Mr. Zhang Junsheng and Mr. Zhang Liping.

The Board has held eight meetings during the Period, four of which were regular meetings. The following were attendance rates of Directors at Board meetings during the Period:

Member of the Board	Attendance/Total number of meetings	Attendance rate
Geng Xiaoping (Chairman)	8/8	100%
Fang Yunti	8/8	100%
Zhang Jingzhong	8/8	100%
Xuan Daoguang	8/8	100%
Zhang Luyun	8/8	100%
Zhang Yang	8/8	100%
Tung Chee Chen	7/8	87.5%
Zhang Junsheng	6/8	75%
Zhang Liping	7/8	87.5%

The Board has regularly held meetings during the Period, four of which were held once every quarter. Ad hoc meetings were held as necessary. The Company has issued letters of enquiry to all the Directors for their comments on the agenda seven days before the issue of notices of Board meetings, so as to ensure that they would have the opportunity to raise additional matters for inclusion in the agenda. The Secretary of the Board issued notice of meeting to all the Directors, Supervisors and participating members fourteen days prior to the convening of each regular Board meeting, so as to allow all the Directors and other participating members to make reasonable arrangements to attend the meeting. The Secretary of the Board has provided the agenda of the meeting and adequate related board papers to all the Directors, Supervisors and participating members three days before the convening of each regular meeting, so as to ensure the Directors could make an informed decision on the matters to be discussed. After the completion of the regular Board meeting, the Company has sent the initial draft and final draft of the minutes to all the Directors: the initial draft to seek comments from the Directors, and the final draft for records. The minutes of the Board and committee meetings contained sufficient detailed records on the matters considered by the Directors at the meetings and the decisions reached, including any concerns raised by the Board or dissenting views expressed by the Directors. The Secretary of the Board has maintained full records of the meetings of the Board and committees, which would be available for inspection by any Director during working hours. All the Directors have had access to the advice and services of the Secretary of the Board, who was available at all times for enquiries in respect on any matters (including the application and execution of the Code), so as to ensure the Board procedures and all the applicable rules and regulations were complied with. The Board and the management made decisions on the matters of the Company within their respective scope of duties in accordance with Articles 92 and 105 in the Articles of Association.

The Company has complied with the requirements under Rules 3.10(1) and (2) of the Listing Rules, and the Board has appointed three Independent Non-executive Directors, with at least one possessing the appropriate professional qualification or with accounting or related financial management expertise.

Upon specific enquiries to all the Independent Non-executive Directors, the Independent Non-executive Directors have confirmed their respective independence pursuant to Rule 3.13 of the Listing Rules during the Period. The Company still considers the Independent Non-executive Directors to be Independent.

There were no financial, business or family relationships between the members of the Board (including the Chairman and the General Manager).

THE CHAIRMAN AND THE GENERAL MANAGER

The Company's Chairman and General Manager, being Mr. Geng Xiaoping and Mr. Fang Yunti, have different roles respectively.

NON-EXECUTIVE DIRECTORS

Each of the Non-executive Directors of the third session of the Board had a term of service for three years, from March 1, 2003 to February 28, 2006. Each of the Non-executive Directors of the fourth session of the Board has a term of service for three years, from March 1, 2006 to February 28, 2009.

NOMINATION AND REMUNERATION OF DIRECTORS

The Board has a Nomination and Remuneration Committee, mainly responsible for reviewing and making recommendations for the selection standards and procedures for Directors, General Manager and other senior management of the Company; identifying qualified candidates and making reviews and recommendations thereon; and determining, supervising and monitoring the implementation of the remuneration policies for the Directors and senior management personnel.

The Nomination and Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. Zhang Liping, Mr. Tung Chee Chen and Mr. Zhang Junsheng. Mr. Zhang Liping was the chairman.

During the Period, the Nomination and Remuneration Committee held two meetings. The following were attendance rates of the members at the meetings of the Nomination and Remuneration Committee during the Period:

Member of the Nomination and Remuneration Committee	Attendance/ Total number of meetings	Attendance rate
Zhang Liping (Chairman)	2/2	100%
Tung Chee Chen	1/2	50%
Zhang Junsheng	2/2	100%

On March 29, 2005, the Nomination and Remuneration Committee held the first meeting of the second session of the Committee, and considered the proposal to the Board to recommend bonuses to be awarded to the senior management, and approved the amended "Terms of Reference for the Nomination and Remuneration Committee".

Through circulation of documents, members of the Nomination and Remuneration Committee assessed the performance of Executive Directors during the Period in accordance with its Terms of Reference.

Given that the term of the third session of the Board would expire on February 28, 2006, and in order that the Company could continue its past successful management experience and continue to maintain its good image both domestically and overseas, with the consent from the controlling shareholder of the Company, and based on the Directors' extensive knowledge in strategic development, finance and laws and relevant working experience and on the principles of agreeing to allocate sufficient time to devote to the Company, the Nomination and Remuneration Committee nominated the candidates of the fourth session of the Board, and held the second meeting of the second session of the Committee on December 27, 2005. Having considered the objectives set out above, the Committee made recommendations to the Board on the candidates for

the fourth session of the Board, candidates of the Supervisory Committee and their service terms, remuneration and benefit plans, and the proposal to award bonuses to members of management on the widening project and operation management.

REMUNERATION OF THE AUDITORS

During the Period, the Company has paid US\$165,000 (equivalent to approximately RMB1,366,000) to Ernst & Young (Hong Kong auditors) in respect of audit services for 2004, and RMB800,000 to Zhejiang Pan China Certified Public Accountants (domestic auditors) in respect of audit services for 2004, which totaled approximately RMB2,166,000. The Company has no other material non-audit service expenses.

AUDIT COMMITTEE

The Board has an Audit Committee, responsible for the review and supervision of the Company's financial reporting procedures and internal control system. The Audit Committee comprised five Non-executive Directors, two of whom were Non-executive Directors, namely Ms. Zhang Luyun and Ms. Zhang Yang; and the remaining three were Independent Non-executive Directors, namely Mr. Tung Chee Chen, Mr. Zhang Junsheng and Mr. Zhang Liping. Mr. Tung Chee Chen was the chairman of the Audit Committee.

During the Period, the Audit Committee held two meetings. The following were the attendance rates of the Committee members at the meetings of the Audit Committee during the Period. The Audit Committee has also reviewed the effectiveness of the internal control system of the Group.

Member of the Audit Committee	Attendance/Total number of meetings	Attendance rate
Tung Chee Chen (Chairman)	2/2	100%
Zhang Junsheng	2/2	100%
Zhang Liping	2/2	100%
Zhang Luyun	2/2	100%
Zhang Yang	2/2	100%

On March 29, 2005, the Audit Committee held the fifth meeting of the second session of the Committee, and considered the Company's audited financial statements for 2004 and the re-appointment of the Auditors. The meeting also approved the audit reports for 2004, the audit plans for 2005, the amended "Terms of Reference for the Audit Committee" and the resignation of Mr. Fang Zhexing from his office as Head of the Internal Audit department. On August 15, 2005, the Audit Committee held the sixth meeting of the second session of the Committee, and considered the interim (unaudited) financial statements for 2005 and the internal audit report for 2005; considered and agreed to the proposals by the Board to the general meeting on the appointment of Deloitte Touche Tohmatsu Certified Public Accountants Hong Kong as the Company's Hong Kong auditors, the re-appointment of Zhejiang Pan China Certified Public Accountants as the Company's domestic auditors, and the authorization upon the Board to determine their remuneration.

During the Period, the Company has complied with the requirements on audit committees as set out in Rule 3.21 of the Listing Rules.

All the Directors of the Company have confirmed their responsibility for preparing the accounts.

SENIOR MANAGEMENT'S INTERESTS IN SHARES

Pursuant to the related requirements under the PRC laws and regulations and the related policies, none of the Company's senior management has any shareholding interest in the Company.

RIGHTS OF SHAREHOLDERS

Pursuant to the Articles of Association, the way to convene an extraordinary general meeting of the shareholders is: two or more shareholders (in aggregate holding Shares in the Company with over 10% (inclusive) of the voting rights in the meeting to be held) to request in writing to the Board by signing one or more forms with similar contents, for convening an extraordinary general meeting, and specifying the agenda of the meeting. Upon receipt of the request in writing, the Board shall convene the extraordinary general meeting as soon as possible.

RELATIONSHIP WITH INVESTORS

There was no change to the Articles of Association of the Company during the Period.

The Company's shares comprised Domestic Shares and H Shares. The Domestic Shares were held by Zhejiang Communications Investments Group Co., Ltd. as to 2,432,500,000 Shares and by Huajin Transportation Economic Development Center as to 476,760,000 Shares, representing 56% and 11% of the total shareholding respectively. The H Shares were held by overseas investors, with a total shareholding of 1,433,854,500 Shares, representing 33% of the total shareholding.

The latest general meeting of the Company was held on February 14, 2006 at 12th Floor, Block A, Dragon Century Plaza, 1 Hangda Road, Hangzhou, and after considerations, the shareholders attended by proxy voted as follows: (1) the meeting approved the election of the Directors and the remunerations for the fourth session of the Board, with 3,207,268,714 shares voted in the affirmative (representing 93.15% of the total votes in the meeting), and 235,733,211 shares voted against (representing 6.85% of the total votes in the meeting); (2) the meeting approved the election of external supervisors and remunerations for the fourth session of the Supervisory Committee, with 3,386,745,627 shares voted in the affirmative (representing 98.37% of the total votes in the meeting), and 730,000 shares voted against (representing 0.02% of the total votes in the meeting); (3) the meeting approved the resolution authorizing the Board to approve the service contracts of the Directors, service contracts of Supervisors and other related documents, and authorizing any of the Company's Executive Directors to sign on behalf of the Company the relevant contracts and other relevant documents after making necessary amendments, and to handle all other related matters required, with 3,436,539,627 shares

voted in the affirmative (representing 99.81% of the total votes in the meeting), and no share voted against.

The Company will hold its 2005 AGM on June 14, 2006 to consider the resolutions in respect of the 2005 audited financial statements, 2005 profit distribution and dividend proposal plans, and 2005 Report of the Directors.

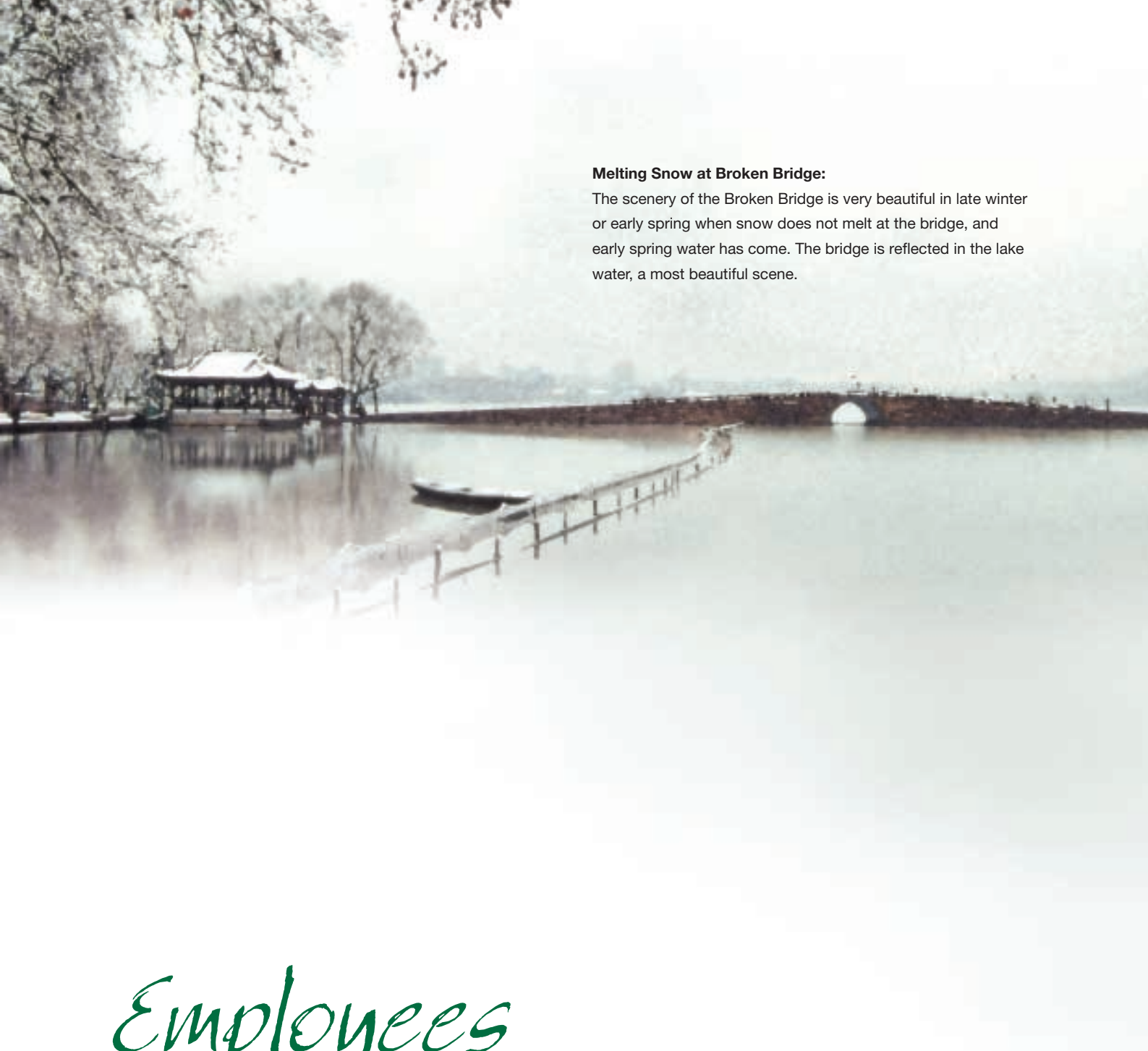
As at the end of the accounting year, the Company's market capitalization held by the public amounted to HK\$6,882,501,600.

The Company has always viewed its relationship with investors as a relationship of great importance, especially with regard to the communications with minority shareholders. During the Period, the Company enabled investors to clearly understand the Company's operation situation and development prospects through timely and accurate announcements, active participations in various investors' forums, regular performance of global roadshows, and hosting company visits for analysts and fund managers. Through such communications, concerns and proposals of investors could also be effectively transmitted to the management, thereby enabling the management to create better values to shareholders.

The Company will be devoted to maintaining such relationship with investors, maintaining the smooth communication channel between the management and investors, and to continue satisfying demands of investors through incessant efforts.

MANAGEMENT FUNCTIONS

The management functions of the Board and the management are specifically stipulated in Articles 92 and 105 in the Articles of Association. Details of the Articles of Association can be obtained on the Company's website www.zjec.com.cn under the section headed "Corporate Governance".



Melting Snow at Broken Bridge:

The scenery of the Broken Bridge is very beautiful in late winter or early spring when snow does not melt at the bridge, and early spring water has come. The bridge is reflected in the lake water, a most beautiful scene.

Employees

For employees, Zhejiang Expressway means a first-rate enterprise committed to both enhancing cost efficiency and developing employees' potential. We strive to create a work environment where our employees can demonstrate and utilize their capabilities. We aim to provide a competitive remuneration and benefits scheme, a fair appraisal and reward system and scientific management. Our ultimate goal is to enable our employees to grow together with the Company.