

Community

For the community, Zhejiang Expressway means a commercial organization which has at heart its social responsibilities. In building and operating expressways, we aim to meet the social need of sustainable development and to facilitate the economic growth of the areas along the expressways. We take protecting the environment as our duty, so much so that in our business planning, project construction and daily operation, the environment and the well-being of the community are always important considerations for the Company's decision making.

Lotus in the Breeze at Crooked Courtyard:

Dark green lotus leaves rise skyward, unbroken and without limit. The fresh and tender reddish lotus looks charming under the light of rising sun, fascinating its alluring beauty.



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, 2005.

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 revenue and contribution to profit from operating activities by principal activity for the year ended December 31, 2005 is set out in note 8 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended December 31, 2005 and the state of affairs of the Group and the Company at that date are set out in the financial statements on pages 45 to 95.

An interim dividend of Rmb0.07 per share (approximately HK\$0.067) was paid on November 25, 2005. The Directors recommend the payment of a final dividend of Rmb0.15 per share (approximately HK\$0.14) in respect of the year, to shareholders on the register of members on May 20, 2006. 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 15 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.

Results	Year ended December 31,				
	2005 Rmb'000	2004 Rmb'000 (restated)	2003 Rmb'000 (restated)	2002 Rmb'000 (restated)	2001 Rmb'000 (restated)
REVENUE	3,456,385	3,131,993	2,471,805	2,168,078	1,722,517
Operating costs	(1,195,428)	(881,355)	(731,451)	(561,918)	(392,535)
Gross profit	2,260,957	2,250,638	1,740,354	1,606,160	1,329,982
Other income	185,947	41,646	127,285	66,457	216,690
Administrative expenses	(62,766)	(74,506)	(114,629)	(95,209)	(88,487)
Other expenses	(41,635)	(243,823)	(54,243)	(33,109)	(18,236)
Profit from operating activities	2,342,503	1,973,955	1,698,767	1,544,299	1,439,949
Finance costs	(101,343)	(103,457)	(132,801)	(163,224)	(215,346)
Share of profits of associates	7,217	9,086	12,509	10,009	(3,181)
Share of profit (loss) of a jointly-controlled entity	16,285	19,622	8,894	686	(2,493)
PROFIT BEFORE TAX	2,264,662	1,899,206	1,587,369	1,391,770	1,218,929
INCOME TAX EXPENSE	(692,366)	(542,749)	(491,346)	(398,251)	(347,359)
PROFIT FOR THE YEAR	1,572,296	1,356,457	1,096,023	993,519	871,570
Attributable to:					
Equity holders of the Company	1,431,192	1,225,699	1,008,792	890,452	760,613
Minority interests	(141,104)	(130,758)	(87,231)	(103,067)	(110,957)
EARNINGS PER SHARE	32.95 cents	28.22 cents	23.23 cents	20.50 cents	17.51 cents

Assets and liabilities	As at December 31,				
	2005 Rmb'000	2004 Rmb'000 (restated)	2003 Rmb'000 (restated)	2002 Rmb'000 (restated)	2001 Rmb'000 (restated)
Total assets	16,311,656	15,465,649	15,068,687	14,505,834	14,477,538
Total liabilities	(3,947,788)	(3,653,143)	(3,910,291)	(3,826,254)	(3,685,828)
Net assets	12,363,868	11,812,506	11,158,396	10,679,580	10,791,710

Notes:

- The consolidated results of the Group for the four years ended December 31, 2004 have been based on and restated from the Company's 2004 annual report dated March 29, 2005, while those of the year ended December 31, 2005 were prepared based on the consolidated income statement as set out on page 45 of the financial statements.
- The 2005 earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year ended December 31, 2005 of Rmb1,431,190,000 (2004: Rmb1,225,699,000) and the 4,343,114,500 ordinary shares (2004: 4,343,114,500 ordinary shares) in issue during the year.

3. Differences in Financial Statements Prepared under PRC GAAP and HKFRss

	Net profit before minority interests		Net assets as at December 31,	
	2005 Rmb'000	2004 Rmb'000	2005 Rmb'000	2004 Rmb'000
As reported in the statutory financial statements of the Group prepared in accordance with PRC GAAP	1,544,952	1,329,577	11,432,913	10,977,094
HK GAAP adjustments:				
(a) Goodwill	45,970	33,726	(65,871)	(111,841)
(b) Depreciation provided, net of deferred tax	4,992	(28,527)	(196,214)	(199,888)
(c) Deferred tax assets on disposal of fixed assets	(38,319)	38,319	–	38,319
(d) Difference in the share premium account during establishment	–	–	11,923	11,923
(e) Profits tax refundable	–	–	(3,686)	(3,686)
(f) Restatement of short term investments in securities at market value, net of deferred tax	14,568	(14,971)	18,678	4,110
(g) General provision on accounts receivable and other debts	162	(145)	1,732	1,607
(h) Minority interests	–	–	1,167,950	1,092,295
(i) Others	(29)	(1,522)	(3,557)	2,573
As restated in the financial statements	1,572,296	1,356,457	12,363,868	11,812,506

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

As announced by the Company on November 18, 2005, the Company has entered into a continuing connected transaction during the year with a subsidiary of its controlling shareholder, Communications Investment Group, further details of which are set out in note 43(b) to the financial statements. The directors of the Company

(including the independent non-executive directors) believe that the terms of the transaction are on normal commercial terms, and in the best interests of the Group and the Company's shareholders as a whole. In the year, there was no other connected transaction which was required to be disclosed under the requirements in chapter 14A of the Listing Rules.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Company and the Group during the year are set out in note 17 to the financial statements.

CAPITAL COMMITMENTS

Details of the capital commitments of the Company and the Group as at December 31, 2005 are set out in note 40 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in the consolidated statement of changes in equity on page 48 to the financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2005, 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 Rmb662,745,000. In addition, in accordance with the Company Law of the PRC, the amount of approximately Rmb3,645,726,000 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, 2005, 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	174,876,000	12.20%
Mondrian Investment Partners Ltd	156,154,000	10.89%
Sumitomo Mitsui Asset Management Company, Ltd	86,024,000	5.99%
J.P Morgan Chase & Co.	71,753,381	5.00%

Save as disclosed above, as at December 31, 2005, 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.

PUBLIC FLOAT

As at the date of this report, and to the best of the Directors' knowledge, 100% of the H shares of the Company, which accounts for approximately 33% of all issued capital of the Company, are held by the public.

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, 2005, other than the deposits of Rmb2,315,866 placed in non-bank financial institutions in the PRC, 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 (term expired on February 28, 2006)

Mr. Jiang Wenyao (appointed on March 1, 2006)

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.

CHANGE IN DIRECTORS AND SENIOR MANAGEMENT

The extraordinary general meeting held on February 14, 2006 resolved to re-elect Mr. Geng Xiaoping, Mr. Fang Yunti, Mr. Zhang Jingzhong, Ms. Zhang Luyun, Ms. Zhang Yang, Mr. Tung Chee Chen, Mr. Zhang Junsheng and Mr. Zhang Liping, and to newly elect Mr. Jiang Wenyao, as members of the fourth session Board of

Directors. The extraordinary general meeting also resolved to re-elect Mr. Ma Kehua, Mr. Zheng Qihua and Mr. Jiang Shaozhong, and to newly elect Mr. Wu Yongmin, as members of the fourth session Supervisory Committee.

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, 2006, 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, 2005 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, 2005, 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	1,100,000	Same as above	1.38
Mr. Xuan Daoguang	Director (term expired on February 28, 2006)	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, 2005, 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 there 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 Rmb10,419,482 (2004: Rmb11,228,000).

MEDICAL INSURANCE SCHEME

Medical expenses for employees of the Group are 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, 2005, certain entities of the Group had enrolled in these compulsory schemes. 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 ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has throughout the year ended December 31, 2005 complied with the Code on Corporate Governance 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

During the year, the Company organized an open bidding process amongst a number of international qualifying auditing firms, including Ernst & Young and Deloitte Touche Tohmatsu, and reached a decision to recommend Deloitte Touche Tohmatsu as the new auditors of the Company. The recommendation was formally approved by shareholders of the Company in an extraordinary general meeting of the Company held on October 31, 2005.

Deloitte Touche Tohmatsu will retire and a resolution for their reappointment of international auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

GENG Xiaoping

Chairman

Hangzhou, Zhejiang Province, the PRC
April 25, 2006