

Report on Corporate Governance

The Board of the Company has reviewed the day-to-day governance practices of the Company in the fiscal year of 2006 (hereinafter referred to as the “Period”) by reference to the relevant Code provisions contained in the “Code on Corporate Governance Practices” (hereinafter referred to as the “Code”) as set out in Appendix 14 of the Hong Kong Listing Rules, and considers that the Company has strictly complied with all Code provisions as set out in the Code.

CORPORATE GOVERNANCE PRACTICES

A. DIRECTORS

The Board has adopted “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 represents the interests of shareholders as a whole, leading the Company to the continued success in its commercial operations. Pursuant to the relevant provisions of the “Company Law” and the mandate of the general meeting, the Board exercises its right of making management decisions in the development strategy, financial control, investment and financing, management structure of the Company. The Board ensures 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 can perform prudently, faithfully and diligently for the overall interests of the Company both in terms of their obligations and responsibilities and accept joint and several responsibilities for all shareholders in respect of the management and operation of the Company. The Board has formulated the “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. The Company has made appropriate insurance arrangements for any legal action which may be faced by its Directors.

The role of the Chairman is undertaken by an Executive Director elected by over half of all the Directors, who is responsible for leading the Board in formulating the Company’s major plans and policies, a good corporate governance practice and procedure, and leads by example to encourage all the Directors to be fully engaged in the business of the Board, and ensures that the Board discusses all the key and appropriate matters in a timely and constructive manner so that the actions of the Board will comply with the best interests of the Company, and enables the effective operation of the Company. The Chairman is responsible for determining and approving the agenda for each Board meeting, during which process the Chairman will consider any matter proposed by other Directors to be added to the agenda. The Chairman authorizes the Secretary of the Board to ensure timely provision of full information regarding the matters to be discussed by the Board to all the Directors. 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. 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.

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 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 so as to ensure that any change in members of the Board will not have an improper impact on the Company. The fourth session

of the Board is comprised of nine directors. Among them, 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. 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 can make independent judgments effectively, 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 specifying whether they are Independent Non-executive Directors.

The Company has formulated the plan for an orderly succession by the new session of the Board as well as formal, deliberate and transparent procedures for the appointment of new Directors. All the Directors of the Company are elected by the general meeting with a term of office of three years for each session. Upon expiry of his/her term of office, a director can be reappointed upon re-election.

The Secretary of the Board is responsible for providing relevant information to all Directors to ensure 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. Non-executive Directors and Executive Directors have the same status and fiduciary responsibility, and by regularly attending meetings of the Board and committee meetings and actively participating in their activities, have made positive contributions to the Company with their independent, constructive and informed opinions. On February 14, 2006 when Mr. Jiang Wen Yao first accepted his appointment as an Executive Director, 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 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 all Directors with the agenda of the meeting, together with adequate and appropriate related meeting Information three days before any Board meeting, to enable the Directors to make fully informed decisions and discharge his/her duties and obligations as a Director. All directors have made formal and informal communications with the senior management from time to time during the Board meetings and other occasions. Each of the Directors has his/her own independent channel of contacting the senior management by himself/herself to obtain the information he/she requires.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Disclosures on the remuneration of the Directors and Supervisors are made available in the 2006 annual report on page 74. 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 remuneration of the Directors were determined at the extraordinary general meeting of the Company held on February 14, 2006 by reference to the common practice and the level of remuneration of domestic and overseas listed companies and taking into account the scale and the growth in results of the Company as well as competitiveness in the market. 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 determining their own remunerations.

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C. ACCOUNTABILITY AND AUDITING

During the Period, the Secretary of the Board has provided full explanations and adequate information to all members of 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 the 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 for the Period, 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 authorizes the management to establish and maintain the internal control system, and conducts reviews on all important control procedures such as finance, operation, compliance and risk management from time to time through its Audit Committee so as to protect the Company's assets and shareholders' interests. Through the Audit Department, the Audit Committee examines, supervises and evaluates the financial position, operation and internal control activities of the Company on a regular basis pursuant to different businesses and flows. During this period, the audit department of the Company organized and implemented tests on internal control and risk management, detected and analysed the internal control situation and hidden risks, and took relevant preventive measures to improve the internal control system. Upon completing the evaluation on the internal control system, the audit department submitted the evaluation result to all members of the Audit Committee for review. Meanwhile, the Company, through the appointment of external auditors, conducted regular audits of the Company's financial reports in accordance with applicable accounting standards, and provided independent and objective opinions and advice in the form of audit reports.

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. The Audit Committee under the Board of the Company has laid down their written terms of reference to comply with the Code. The relevant content has been posted on the Company's website in the section headed "Corporate Governance". During the Period, the initial draft and final draft of the minute of each 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. At present, none of the five members of the Audit Committee were formal partners of the Company's existing external auditors. The Audit Committee has sufficient resources to perform its duties.

D. DELEGATION BY THE BOARD

The Company has formulated a formal pre-determined schedule in the Articles of Association 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

The Board of the Company has put emphasis on the convening of general meetings and makes every effort to maintain continued communication with shareholders. The Company will send the notice of the general meeting and/or circular to both domestic and overseas shareholders 45 days prior to the holding of the general meeting, specifying the matters to be considered at the meeting and the voting procedure in compliance with the “Listing Rules” and the Articles of Association. During the Period, the Chairman has attended all general meetings, whereat a separate resolution in respect of each separate matter was passed, and has made arrangements for the scrutineer, Deloitte Touche Tohmatsu Certified Public Accountants, to supervise the relevant voting by shareholders. 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.

SECURITIES TRANSACTIONS BY DIRECTORS

Pursuant to the “Model Code for Securities Transactions by Directors of Listed Issuers” under Appendix 10 of the Listing Rules (hereinafter referred to as “Model Code”) as well as taking into account the actual situation of the Company, the Company has formulated its own “Rules on Security Dealings”, with standards not less exacting than the “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

On 14 February 2006, the Company held the EGM at which the fourth session of the Board was elected. The fourth 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. Jiang Wenyao; 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 of the Company has held six meetings during the Period. The following were attendance rates of all Directors at Board meetings (including appointing other directors to attend):

Member of the Board	Attendance/Total number of meetings
Geng Xiaoping (Chairman)	6/6
Fang Yunti	5/6
Zhang Jingzhong	6/6
Jiang Wenyao	5/6
Zhang Luyun	6/6
Zhang Yang	5/6
Tung Chee Chen	6/6
Zhang Junsheng	6/6
Zhang Liping	6/6

The Board has regularly held meetings during the Period. 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 (seven days prior to the convening of an ad hoc 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 Board 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

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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.

Pursuant to Rules 3.13 of the listing Rules, the company has specially inquired all three Independent Non-executive Directors and received their respective confirmation of Independence. 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 relationship between the members of the Board (including the Chairman and the General Manager), including financial, business, family or other material/relevant relationships.

THE CHAIRMAN AND THE GENERAL MANAGER

The Company's Chairman and General Manager have different roles which are assumed by Mr. Geng Xiaoping and Mr. Fang Yunti respectively.

TERM OF SERVICE OF NON-EXECUTIVE DIRECTORS

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. For the details of its terms of reference, please refer to the "Corporate Governance" section in the Company's web site. The Nomination and Remuneration Committee has sufficient resources for performing its duties.

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 did not hold any meeting.

REMUNERATION OF THE AUDITORS

During the Period, the Company has paid HK\$1,384,500 (equivalent to approximately Rmb1,426,300) to Deloitte Touche Tohmatsu Certified Public Accountants (Hong Kong auditors) in respect of audit services for 2005, and Rmb610,000 to Zhejiang Pan China Certified Public Accountants (domestic auditors) in respect of audit services for 2005, which totaled approximately Rmb2,036,300. The Company has no other material non-audit service expenses.

AUDIT COMMITTEE

The Board has an Audit Committee which is mainly responsible for providing advice to the Board regarding the appointment, reappointment and removal of external auditors; the supervision of the integrity of the Company's financial statements and annual reports and accounts, half-yearly reports, and the review of important opinions in relation to financial reporting as set out in statements and reports; and the review of the Company's financial control, internal control and risk management system. The Audit Committee comprised five Non-executive Directors, three of whom were Independent Non-executive directors, namely Mr. Tung Chee Chen, Mr. Zhang Junsheng and Mr. Zhang Liping; and the remaining two were Non-executive Directors, namely Ms. Zhang Luyun and Ms. Zhang Yang. Mr. Tung Chee Chen was the chairman of the Audit Committee.

During the Period, the Audit Committee held three meetings. The following were the attendance rates of the members (including appointing other members to attend):

Member of the Audit Committee	Attendance/Total number of meetings
Tung Chee Chen (Chairman)	3/3
Zhang Junsheng	3/3
Zhang Liping	3/3
Zhang Luyun	3/3
Zhang Yang	3/3

On February 20, 2006, the Audit Committee held the first meeting of the third session of the Committee, and considered and agreed to the appointment of the person in charge of the audit department. On April 25, 2006, the Audit Committee held the second meeting of the third session of the Committee, and considered the audited financial statements for 2005, the audit reports for 2005 and the audit plans for 2006, and considered and agreed to the proposals by the Board to the annual general meeting on the re-appointment of Deloitte Touche Tohmatsu Certified Public Accountants Hong Kong as the Company's Hong Kong auditors and the re-appointment of Zhejiang Pan China Certified Public Accountants as the Company's PRC auditors, and the authorization upon the Board of the Company to determine their remuneration. On August 29, 2006, the Audit Committee held the third meeting of the third session of the Committee, and considered the interim (unaudited) financial statements for 2006, the internal audit report for 2006, the amendment to the "Terms of Reference for Audit" and changing the person in charge of the audit department. Apart from the above, the Audit Committee also examined and supervised the work of the audit department by reviewing quarterly audit reports.

During the Period, the Company has complied with the requirements on the composition of 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.

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.

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RELATIONSHIP WITH INVESTORS

Pursuant to the new “Company Law” coming into effect on January 1, 2006, the Company made amendments to Articles 3, 145, 148, 149, 151, 153 and 182 in the Articles of Association at the annual general meeting held on June 14, 2006. For details of the amendments, please refer to the shareholders’ circular sent by the Company on April 29, 2006.

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 Huajian 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. For details of the substantial shareholders holding more than 5% of the Company’s H shares, please refer to the annual report for this year on page 42.

The latest general meeting of the Company was held on November 16, 2006 at 12th Floor, Block A, Dragon Century Plaza, 1 Hangda Road, Hangzhou, and considered the interim dividend proposal plan for 2006. Following voting by the shareholders attended by proxy, the meeting approved the payment of an interim dividend of Rmb0.07 per share for the six months ended June 30, 2006, representing approximately 44% of the earnings per share for the same period, with 3,551,556,925 shares voted in the affirmative (representing 100% of the total votes at the meeting), and 0 shares voted against.

The Company will hold its 2006 AGM on June 11, 2007 to consider the resolutions in respect of the 2006 audited financial statements, 2006 profit distribution plan, and 2006 Report of the Directors.

As at the end of the period, the Company’s market capitalization held by the public amounted to HK\$8,545,772,820.

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 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 under the section headed “Corporate Governance”.

Mid-Ming Dynasty – Sun Gai:

Built the Mid-Lake Pavilion, adding another great scenery

During the Jia Jing Period of the Ming Dynasty, Sun Gai, the then-governor of Hangzhou, built the Mid-Lake Pavilion with soil at the former site of the northern pagoda of the three pagodas built by Su Shi, in order to resolve Xi Hu's floods. The Mid-Lake Pavilion is the biggest pavilion in Xi Hu, named for its location at the centre of the whole lake. As the pavilion is located at the centre of Xi Hu, the pavilion commands the entire view of the surrounding beautiful lake and hills. Accordingly, it is named "A Panorama from the Heart of Xi Hu" among the "18 Views of Xi Hu".

2003

Development Co established: Focusing on the development of expressway-related business operations

In 2003, Zhejiang Expressway established Development Co to facilitate the development of expressway-related business operations, such as service areas, petrol stations and vehicle service, so as to provide road users with better and comprehensive ancillary services while expanding the revenue base of the Company. Since its inception, the Company has been continuously improving the facilities and services of expressways to create a comfortable, safe and efficient traffic environment for road users.