

2006

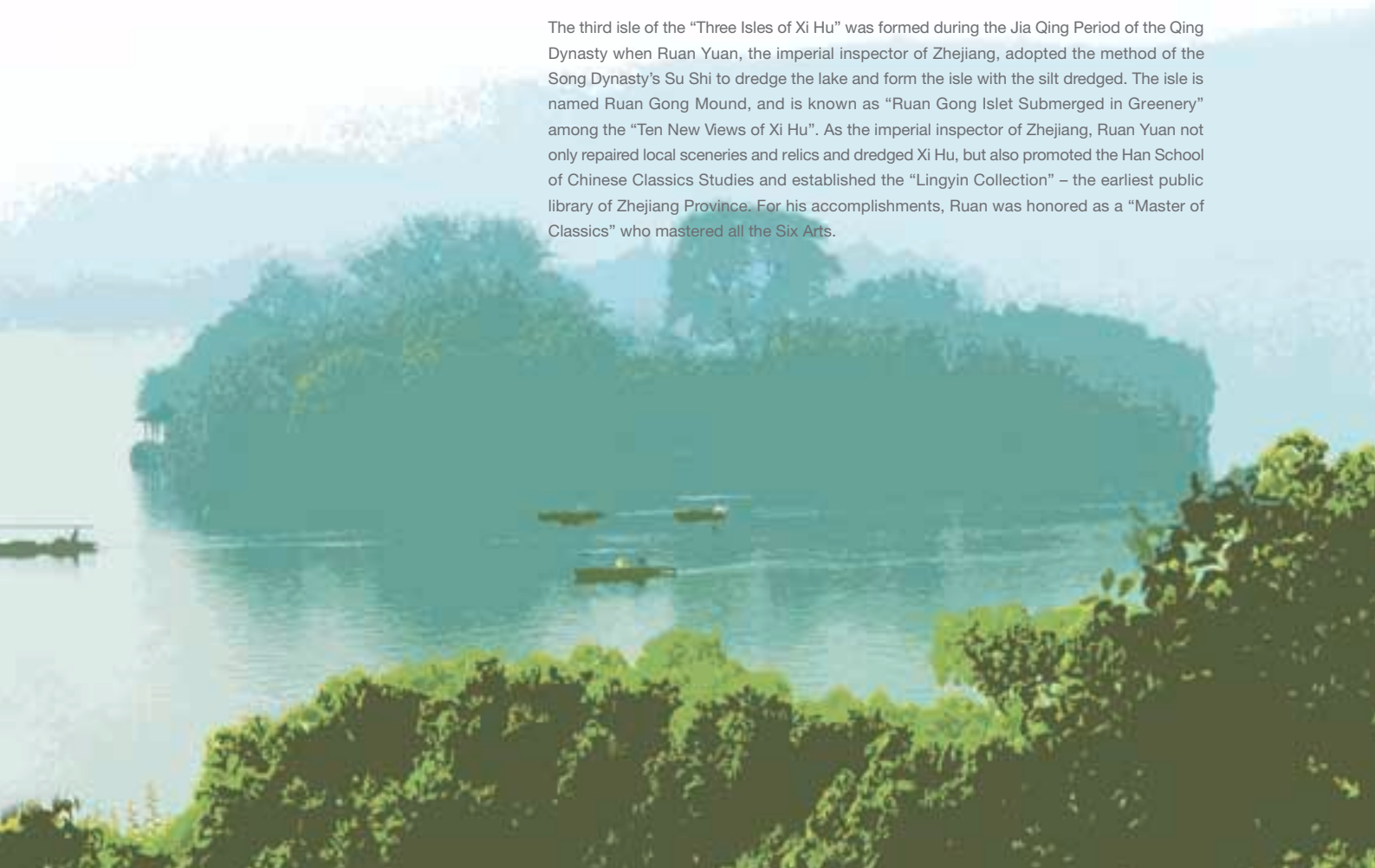
Major works of the Phase III Widening Project completed: Meeting the demand from continued traffic growth

In 2006, the Company completed all the key construction works of the Phase III Widening Project on the Shanghai-Hangzhou-Ningbo Expressway, thereby fully gearing up itself for the full operation of the province's first 8-lane expressway. Meanwhile, the works completion also allowed the Company to assume a more important role among Zhejiang's expressway operators while meeting the demand from growing vehicle traffic in the province.

Qing Dynasty – Ruan Yuan:

Build the Ruan Gong Mound, founding a public library to promote Han Studies

The third isle of the “Three Isles of Xi Hu” was formed during the Jia Qing Period of the Qing Dynasty when Ruan Yuan, the imperial inspector of Zhejiang, adopted the method of the Song Dynasty’s Su Shi to dredge the lake and form the isle with the silt dredged. The isle is named Ruan Gong Mound, and is known as “Ruan Gong Islet Submerged in Greenery” among the “Ten New Views of Xi Hu”. As the imperial inspector of Zhejiang, Ruan Yuan not only repaired local sceneries and relics and dredged Xi Hu, but also promoted the Han School of Chinese Classics Studies and established the “Lingyin Collection” – the earliest public library of Zhejiang Province. For his accomplishments, Ruan was honored as a “Master of Classics” who mastered all the Six Arts.



Report of the Directors

The Directors of the company hereby present their report and the audited financial statements of the Company and the Group for the year ended December 31, 2006.

PRINCIPAL ACTIVITIES

The principal activities of the Group comprise the investment, operation, maintenance and management of high grade roads, as well as development and operation 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 revenue and contribution to profit from operating activities of the Group were derived from the Zhejiang Province in the People's Republic of China ("PRC"). Accordingly, a further analysis of the revenue 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, 2006 is set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended December 31, 2006 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 96.

An interim dividend of Rmb0.07 per share (approximately HK\$0.07) was paid on November 30, 2006. The Directors recommend the payment of a final dividend of Rmb0.20 (approximately HK\$0.20) in respect of the year, to shareholders whose names appeared on the register of members of the Company on May 17, 2007. 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 13 to the financial statements.

Report of the Directors

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, | | | | |
|---|-------------------------|-----------------|-------------------------------|-------------------------------|-------------------------------|
| | 2006 Rmb'000 | 2005 Rmb'000 | 2004 Rmb'000 (restated) | 2003 Rmb'000 (restated) | 2002 Rmb'000 (restated) |
| REVENUE | 4,763,780 | 3,456,385 | 3,131,993 | 2,471,805 | 2,168,078 |
| Operating costs | (2,076,670) | (1,195,428) | (881,355) | (731,451) | (561,918) |
| Total profit | 2,687,110 | 2,260,957 | 2,250,638 | 1,740,354 | 1,606,160 |
| Other income | 203,952 | 185,947 | 41,646 | 127,285 | 66,457 |
| Administrative expenses | (71,022) | (62,766) | (74,506) | (114,629) | (95,209) |
| Other expenses | (32,901) | (41,635) | (243,823) | (54,243) | (33,109) |
| Finance costs | (71,991) | (101,343) | (103,457) | (132,801) | (163,224) |
| Share of profit of associates | 4,435 | 7,217 | 9,086 | 12,509 | 10,009 |
| Share of profit of a jointly-controlled entity | 23,344 | 16,285 | 19,622 | 8,894 | 686 |
| PROFIT BEFORE TAX | 2,742,927 | 2,264,662 | 1,899,206 | 1,587,369 | 1,391,770 |
| INCOME TAX EXPENSE | (884,036) | (692,366) | (542,749) | (491,346) | (398,251) |
| PROFIT FOR THE YEAR | 1,858,891 | 1,572,296 | 1,356,457 | 1,096,023 | 993,519 |
| Attributable to: | | | | | |
| Equity holders of the Company | 1,652,871 | 1,431,192 | 1,225,699 | 1,008,792 | 890,452 |
| Minority interests | 206,020 | 141,104 | 130,758 | 87,231 | 103,067 |
| EARNINGS PER SHARE | 38.06 cents | 32.95 cents | 28.22 cents | 23.23 cents | 20.50 cents |

| Assets and liabilities | As at December 31, | | | | |
|------------------------|--------------------|-----------------|-------------------------------|-------------------------------|-------------------------------|
| | 2006 Rmb'000 | 2005 Rmb'000 | 2004 Rmb'000 (restated) | 2003 Rmb'000 (restated) | 2002 Rmb'000 (restated) |
| Total assets | 19,570,419 | 16,311,656 | 15,465,649 | 15,068,687 | 14,505,834 |
| Total liabilities | (6,217,967) | (3,947,788) | (3,653,143) | (3,910,291) | (3,826,254) |
| Net assets | 13,352,452 | 12,363,868 | 11,812,506 | 11,158,396 | 10,679,580 |

Notes:

1. The consolidated results of the Group for the four years ended December 31, 2005 have been extracted from the Company's 2005 annual report dated April 25, 2006, while those of the year ended December 31, 2006 were prepared based on the consolidated income statement as set out on page 48 of the financial statements.
2. The 2006 earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year ended December 31, 2006 of Rmb1,652,871,000 (2005: Rmb1,431,192,000) and the 4,343,114,500 ordinary shares (2005: 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, | |
|---|---|-----------------|----------------------------------|-----------------|
| | 2006 Rmb'000 | 2005 Rmb'000 | 2006 Rmb'000 | 2005 Rmb'000 |
| As reported in the statutory financial statements of the Group prepared in accordance with PRC GAAP | 1,727,477 | 1,544,952 | 12,039,846 | 11,432,913 |
| HK GAAP adjustments: | | | | |
| (a) Goodwill | 76,176 | 45,970 | (93,751) | (65,871) |
| (b) Depreciation provided, net of deferred tax | 7,840 | 4,992 | (189,658) | (196,214) |
| (c) Deferred tax assets on disposal of fixed assets | — | (38,319) | — | — |
| (d) Difference in the share premium account during establishment | — | — | 11,923 | 11,923 |
| (e) Restatement of short term investments in securities At market value, net of deferred tax | 28,229 | 14,568 | 34,296 | 18,678 |
| (f) General provision on accounts receivable and other debts | 9,851 | 162 | 11,120 | 1,732 |
| (g) Assessment on impact of appreciation, net of deferred tax | 3,068 | — | 85,847 | — |
| (h) Others | 6,250 | (29) | (6,319) | (7,243) |
| (i) Minority interests | — | — | 1,459,148 | 1,167,950 |
| As restated in the financial statements | 1,858,891 | 1,572,296 | 13,352,452 | 12,363,868 |

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

During the year, the Company has entered into a continuing connected transaction with its subsidiary and a fellow subsidiary, details of which are set out in note 44 to the financial statements.

PROPERTY, MACHINERY AND PLANT

Details of movements in property, machinery and plant of the Company and the Group during the year are set out in note 15 to the financial statements.

Report of the Directors

CAPITAL COMMITMENTS

Details of the capital commitments of the Company and the Group as at December 31, 2006 are set out in note 41 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 51 to the financial statements.

DISTRIBUTABLE RESERVES

As at December 31, 2006, 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 HK GAAP, amounted to Rmb1,076,321,000. 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, 2006, 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) |
|--|------------------|--|
| Bailie Gifford & Co. | 216,677,200 | 15.11% |
| Aberdeen Asset Management PLC and its Associates | 206,964,000 | 14.43% |
| The Children's Investment Master Fund | 132,354,000 | 9.23% |
| Mondrian Investment Partners Ltd. | 121,248,000 | 8.46% |
| JP Morgan Chase & Co. | 115,796,817 | 8.08% |

Save as disclosed above, as at December 31, 2006, 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, 2006, other than the deposits of Rmb5,122,228 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 Wen Yao (appointed on March 1, 2006)

NON-EXECUTIVE DIRECTORS

Ms. Zhang Luyun
Ms. Zhang Yang

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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 Wen Yao, 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 on page 34 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, 2006 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.

Report of the Directors

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

As at December 31, 2006, 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:

Interest in the shares of Zhejiang Expressway Investment Development Co., Ltd.

| Name | Position | Contribution of registered capital (Rmb) | Nature of interest | Percentage of the registered capital of associated corporation |
|---------------------|--------------------------|--|-----------------------------|--|
| Mr. Geng Xiaoping | Chairman | 2,400,000 | Directly beneficially owned | 3.00% |
| Mr. Fang Yunti | Director/General Manager | 1,920,000 | Same as above | 2.40% |
| Mr. Jiang Wenyao | Director | 1,320,000 | Same as above | 1.65% |
| Mr. Zhang Jingzhong | Director | 1,100,000 | Same as above | 1.38% |
| Mr. Fang Zhexing | Supervisor | 700,000 | Same as above | 0.88% |

Save as disclosed above, as at December 31, 2006, 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.

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, 2006 complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

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

Upon the expiry of terms of Ernst & Young Certified Public Accountants as the international auditors of the Company in 2005, Deloitte Touche Tohmatsu Certified Public Accountants Hong Kong was appointed as the new international auditors of the Company, and was subsequently re-appointed in 2006.

Deloitte Touche Tohmatsu Certified Public Accountants Hong Kong will retire in 2007, and a proposal for the appointment of international auditors of the Company will be submitted for consideration at a general meeting of the shareholders of the Company to be held later in 2007.

ON BEHALF OF THE BOARD

GENG Xiaoping

Chairman

Hangzhou, Zhejiang Province, the PRC

April 24, 2007